

TOWARDS RURAL DEVELOPMENT POLICY
FOR THE 1990'S: ENHANCING INCOME AND
EMPLOYMENT OPPORTUNITIES

A SYMPOSIUM

SPONSORED BY

THE CONGRESSIONAL RESEARCH SERVICE

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LETTER OF TRANSMITTAL

SEPTEMBER 6, 1989.

HON. LEE H. HAMILTON,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, DC.*

DEAR MR. CHAIRMAN: I am pleased to submit to you this report on the proceedings of the symposium on rural economic development in the 1990's which was held on September 29-30, 1988, at the request of the Joint Economic Committee by the Congressional Research Service. Arranged in conjunction with the Committee's September 28 hearing on rural development issues, the symposium undertook to analyze the growing disparities between rural and urban economic growth patterns and to assess new proposals for strengthening the rural economy.

At the invitation of the Committee and the CRS, 25 distinguished university economists and sociologists, Federal and State government officials, and foundation experts participated in the symposium's series of panel discussions. This report reprints in full the formal papers presented at the symposium. It also includes summaries of the panel discussions among invited participants and members of the audience in response to the papers, and an introductory chapter prepared by Committee staff.

The Joint Economic Committee wishes to thank the symposium participants for providing thoughtful new perspectives on the complex question of rural economic growth. In connection with the planning and implementation of the symposium, the Committee is especially grateful to Kenneth Deavers of the Economic Research Service of the U.S. Department of Agriculture, and to Sandra Osborne, Mort Schussheim, and Chad Wilson, staff members of the Congressional Research Service. There is a longstanding tradition of cordial and productive cooperation between the Committee and the CRS, and the symposium contributed significantly to that tradition.

With best regards,
Sincerely,

PAUL S. SARBANES,
Vice Chairman.



CONTENTS

	Page
Letter of Transmittal	III
TOWARDS RURAL DEVELOPMENT POLICY FOR THE 1990'S: ENHANCING INCOME AND EMPLOYMENT OPPORTUNITIES	
A Synopsis of the Proceedings of the Rural Development Symposium—David Freshwater	1
I. Rural Economic Conditions: The Knowledge Base	23
The Statistical Database for Rural America—James T. Bonnen	25
Welfare Reform in Rural Areas—Robert Greenstein	35
Two Types of Poverty, Two Types of Policy—Robert A. Hoppe	41
II. Factors Affecting Income and Employment in Persistent Poor and Tem- porary Poor Rural Areas	61
Rural Areas and the National Economy—Thomas F. Hady	63
Southern Education, Poverty, and Rural Development: The Case for New Policy Assumptions—Jerry R. Skees and Louis E. Swanson	71
The Statistical and Analytical Base for Rural Development Policy—Glenn L. Nelson	101
III. What Role Can Private Institutions Play in the Rural Development Process?	109
Bootstraps and Grassroots: The Role of Private Institutions in Rural Economic Development—Philip M. Burgess	111
Nonprofit Agencies, Changing Fiscal Conditions, and Human Serv- ices in Nonmetropolitan Communities: Some Questions From Ohio—Philip A. Russo, Jr., Douglas H. Shumavon, Kenneth Hibbeln, and Frank McKenna	121
Risk Capital and Rural Development—Peter S. Fisher	130
Private Initiatives for Rural Development: Ideological Cop Out or Engine for Progress—Ronald W. Cotterill	149
The Role of Entrepreneurship in Rural Economic Development— Thomas G. Johnson	156
IV. Appropriate Roles for Governments	163
Helping People in Place: Federal Rural Policy for the Nineties— Thomas F. Stinson	166
New Alliances for Rural America—DeWitt John	175
Local Governments as Agents of Rural Development—Alvin D. Sokolow	188
V. How Can Federal Policy Be Made More Effective?	197
Canadian Rural Regional Development—J.A. MacMillan and E.A. Poyser	199
New York State Rural Development Institutions—Ron Brach	217
Federal Organization for Rural Policy—William J. Nagle	231
VI. Closing Remarks—Kenneth L. Deavers	239
VII. Symposium Participants	249

A SYNOPSIS OF THE PROCEEDINGS OF THE RURAL DEVELOPMENT SYMPOSIUM

By David Freshwater¹

INTRODUCTION

The report is divided into three parts. Part I provides a short profile of the population and economic activities of rural America; of the growth of Federal rural development policies; and of the complex questions which arise in attempting to define "rural" and "rural development." Part II reviews the economic status of rural America; and Part III focuses specifically on the Federal role. The report draws primarily, but not exclusively, on the views and analyses presented at the symposium.

PART I. THE CONTEXT FOR THE SYMPOSIUM

This section of the report provides an overview of rural conditions and policies to establish a context for the rest of the report. The second section reviews the basic issues considered in the symposium.

AN OVERVIEW OF CONDITIONS IN RURAL AMERICA

The Nature of Rural Economic Activity

Economic activity in rural areas is more variegated than is commonly supposed. Farming, mining, forestry, fisheries, and recreation opportunities come most readily to mind when thinking of rural areas, but other significant forms of rural economic activity include various types of manufacturing, military bases and installations, and the provision of social services through educational and health facilities.

Using categories established by the Economic Research Service (ERS) of the United States Department of Agriculture (USDA), in 1980 only 29 percent of all rural counties were characterized as being agriculturally dependent, 28 percent had manufacturing-based economies, while 21 percent relied primarily on income from retirees or recreation facilities, and 13 percent on government activity such as universities, military facilities, etc. By 1986, ERS had lowered the share of agriculturally dependent counties to 21 percent. Similarly, the share of manufacturing counties fell to 24 percent, with lesser amounts of change in other country types.

Poverty in Rural America

Nonmetropolitan areas account for roughly one-fourth of the nation's population but 20 percent of its personal income. ERS has

¹ Senior Economist, Joint Economic Committee.

characterized 10 percent of the nonmetropolitan counties as being "chronically impoverished."

Two symposium participants' presentations concentrated on poverty data in their papers. Robert Hoppe, economist with USDA's Economic Research Service, focused on similarities and differences between the persistent and temporary poor. Robert Greenstein, director of the Center on Budget Priorities, cited Census data showing that poverty, malnutrition, and inadequate health care are more common in rural than in urban core areas. The failure of rural poverty to fall since the 1981-82 recession, although poverty rates usually fall in a recovery period, is indicative of the severity of the problem. As noted in Table 1, poverty is concentrated among the elderly, nonwhites, those with low educational achievement, and female-headed families, in addition to having a geographical dimension. While the temporary poor are more likely than the persistent poor to be part of the labor force their employment is often unstable, depending on the health of the economy.

Origins of Federal Rural Policy

The first tangible evidence of Federal concern with rural standards of living was the appointment by President Theodore Roosevelt in 1908 of the Country Life Commission. Major Federal policies to promote rural economic development were first introduced in the 1930's in response to the rural economic crisis that had accompanied the collapse of the farm sector in the previous decade and worsened with the onset of the Great Depression. Among the agencies created in that period were the Rural Electrification Administration, the Tennessee Valley Authority, and precursors to the Farmers Home Administration. The Federal commitment to rural development was further reflected in a number of the initiatives of the Johnson administration in the 1960's, such as "Operation Outreach" at USDA and efforts to improve coordination and management of existing Federal programs. Federal rural development programs were consolidated for the first time in a single piece of legislation in 1972, with the enactment of the Rural Development Act of 1972.

Policy Trends of the 1980's

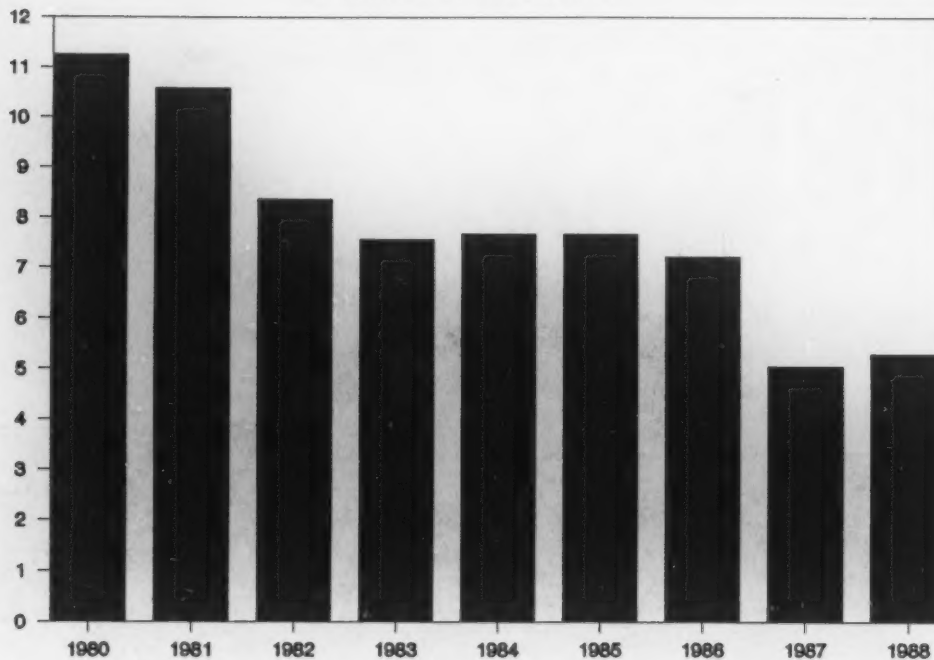
The 1972 act and the Rural Policy Act of 1980—which affirmed the primary responsibility of the Department of Agriculture for coordinating Federal rural development activities—have been cornerstones of Federal rural development programs in this decade. Their implementation has been severely limited, however, by a broad Federal economic strategy which has not taken into account the regional impact of employment, income and other important trends, and by the sharp budget reductions for rural development and related programs.

The effect of budget reductions is evident in Figures 1 and 2, below. Figure 1 shows budget outlays for all community and regional development activities, including both rural and urban areas, which declined by more than 50 percent in the 1980-88 period.

Figure 1

Outlays for Community and Regional Development

Billions of Dollars

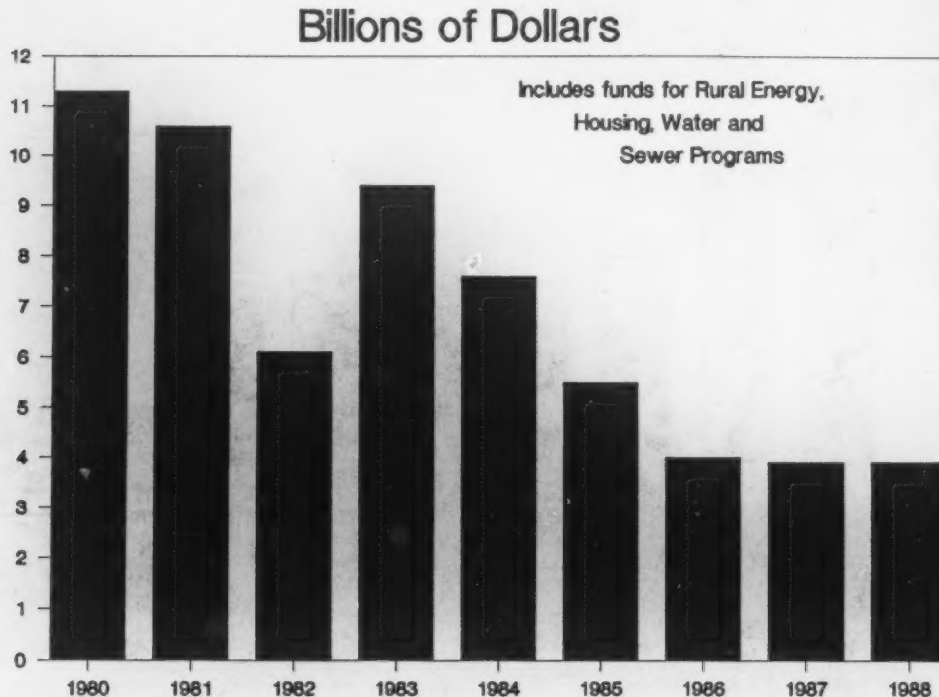


Source: Historical Budget Tables FY 1990

Figure 2, based on calculations of the Senate Budget Committee of outlays for rural development programs over the same period, shows an even more striking decline, to roughly one-third of the 1980 level.

Figure 2

Federal Funds for Rural Credit Programs



Source: Senate Budget Committee, Unpublished Memo

Income and employment levels in rural areas have not kept pace with improvements in urban areas since the 1981-82 recession; rural levels of educational attainment have lagged behind urban levels; and the pattern of outmigration, which had been reversed in the 1970's, has resumed in the 1980's. As concern with continuing depressed economic conditions in rural areas and the widening gap between rural and urban conditions grew, USDA in 1987 initiated a plan to facilitate delivery of existing rural development resources and programs. In its 1988 report to Congress, "On the Move," USDA identified 13 major Federal departments and agencies with programs serving an economic development function in rural areas.

Also in the 1988 report, USDA noted that small and rural communities have unique problems that require "needs-based" programs to supplement generally available programs.

THE ISSUES FOR THE SYMPOSIUM

The primary objective of the symposium was to survey the economic problems facing rural areas and to define appropriate roles for the Federal and other levels of government in the effort to promote rural economic development. As part of this broad discussion, however, it was necessary to address two basic questions, one a matter of definition and the other a matter of macroeconomic analysis: what constitutes a "rural area" and "rural economic development," and do continuing depressed economic conditions in rural America represent a downturn in the rural business cycle or are they a symptom of structural economic change?

Defining Rural Development

Arriving at a precise and broadly applicable definition of "rural" is a complex problem involving numerous factors. Under the official Census Bureau definition, a rural area is one located in a non-urban area, while an urban area is one having more than 2,500 residents. A metropolitan area, according to the Census Bureau, has at least 50,000 residents and includes adjacent counties which supply the central county with a significant portion of its labor force. Under these definitions it is possible for metropolitan counties to include rural areas, and nonmetropolitan counties to include urban areas.

For most data collection purposes, "rural" refers to a location in a nonmetropolitan county, but this definition only works well when dealing with well-defined units with clear boundaries. James Bonnen, professor at Michigan State University, and Mil Duncan, associate director of the Program on Rural Economic Policy at the Aspen Institute, both made clear that a workable definition must go beyond "not urban."

Distinguishing "Rural" From "Farm"

Although "rural" and "agricultural" were once nearly synonymous, this is no longer the case. About one-fourth of the nation's population is rural, if rural is defined as nonmetropolitan. By contrast, only 2.3 percent of the total labor force is comprised of farm operators and workers, while 22 percent of the labor force is located in nonmetropolitan areas.

Nonetheless, there are several reasons why the terms have been used interchangeably in the past. For most of the country's history, agriculture was indeed the main economic activity in rural America. As late as 1940, 43 percent of the population lived in rural areas, over half of them on small farms; those not living on farms lived in small communities which typically provided goods and services to agriculture.

As a result, a healthy farm economy was considered the foundation of a healthy rural economy. Developments over the last decade, however, suggest an increasingly tenuous link between the two. Both the declining percentage of farm dependent counties, and the failure of high Federal outlays on farm programs to bring about economic recovery in rural areas, reinforce the divergence. It is more difficult now than in the past to conclude that Federal

farm programs will necessarily assure adequate underpinnings for the economy of rural communities.

Furthermore, USDA has traditionally played the predominant role in administering rural programs which reinforces the link between rural and agriculture. While USDA's primary focus is commercial agriculture, as a practical matter it is the only major Federal department which has maintained a long-term involvement in rural programs and a visible presence in rural areas.

Distance as a Factor in Defining Rural

Almost by definition, rural areas are physically distant from population centers, and the density of settlement is far lower than in urban areas. Other than in the immediate vicinity of urban areas distance has significant consequences with respect to the availability of employment; access to goods and services; transportation cost; and the possibilities for achieving economies of scale.

If rural communities are viewed as geographically distant neighborhoods, as one participant put it, the differences between rural and more densely populated urban areas with respect to distance and scale are clearer. Like urban neighborhoods, rural communities are unable to supply all the goods and services residents require. But, unlike urban neighborhoods, where it is possible for each neighborhood to specialize and still retain ready access to the products of other areas, rural communities face major commuting costs. As a result rural communities must choose between trying to do many things inefficiently or specializing in a small number of areas and facing high access costs for externally provided goods and services. Nonmetropolitan counties in close proximity to urban centers face different problems and options than do counties further removed. As symposium participant David Brown, director of the Agricultural Experiment Station at Cornell University, pointed out: accordingly, development strategies which treat rural areas as relatively less populous urban areas are unlikely to be successful.

Cyclical Downturn or Structural Change?

Several participants pointed to changes in the global economy and new technologies that may mean a permanent reduction in the demand for the traditional economic goods and services produced in rural America. In addition, they observed, foreign competition in low-wage, low-technology industries has reduced the demand for the cheap labor which has often characterized the rural economy in the past; and foreign sources of raw material now compete more vigorously with primary industries in U.S. rural areas.

If in fact conditions in the rural economy reflect structural change rather than cyclical downturn, they concluded, waiting for recovery or attempting to attract new firms in traditional lines of production will be unproductive.

The Role of Government

A consensus emerged from the symposium that sustained economic growth in rural areas will require initiatives on the part of the various levels of government. Participants suggested that appropriate areas for government involvement and support include: assistance in providing resources to improve education; generation

of certain types of information, including data on current economic indicators; assistance in providing social services, like health care and nutrition; as well as physical infrastructure, like water and sewer plants.

In a session focusing on the role of the private sector, presenters also argued that government should offer support to private development initiatives; for example, by offering to absorb some of the risk associated with establishing new types of rural enterprise. Such support is especially important, they pointed out, in areas where low-growth, traditional activities—including low-technology manufacturing, mining, forestry, and fishing—are prevalent.

Presentations on the role of the various levels of government consistently observed that as conditions in rural areas change, and as the roles and capacities of different levels of government are redefined, a reevaluation of existing programs and responsibilities is essential. Participants agreed that coordination of Federal, State, and local activities makes best use of available resources; and that political leadership and public-private sector cooperation are indispensable components in forging an effective approach to the economic problems of rural development.

CONCLUSION

Although there are working definitions of "rural," there is no universally accepted uniform definition. As a result, there are no clear guidelines for developing data, defining rural program areas and building common ground among different groups with nonurban concerns. Since there has been no agreed-upon basis for common action, groups in rural areas have tended to focus on their own particular problems.

Rural Development Programs

Traditionally, the primary goal of rural economic development has been to expand income and employment by attracting new businesses or helping existing businesses expand. An important secondary goal has been to provide the necessary physical infrastructure: transportation networks, utilities, and, more recently, industrial parks. A less common but nonetheless important goal has been to provide assistance, in the form of funding and technical assistance, for community planning and business management.

Social Infrastructure

Several symposium participants proposed the addition of what they called "social infrastructure" as a distinct class of rural development activities. This would include training a skilled and adaptable labor force, and assuring rural residents access to such resources as good schools, health care facilities, and other social and cultural services. While a number of participants argued that social infrastructure is the area most in need of additional effort, Eugene D. Sullivan, research officer at the Atlanta Federal Reserve Bank, urged that more traditional efforts to attract and support industry not be neglected; the major income and employment benefits which these programs bring to a community can in turn provide the resources for improving social infrastructure.

The Role of Small Business

Members of the symposium panel on public-private partnerships were in agreement that small business is the key to economic growth in rural America, and that communities which succeed in establishing and sustaining small businesses will benefit significantly. While branch plants of large businesses may be important in some communities, participants noted that the number of small communities far exceeds the number of such plants.

If the primary engine of growth in rural areas is to be small business, then the traditional industrial recruitment techniques, developed to attract branch plants of major corporations to these areas—credit programs, tax-exempt bonds, and tax concessions—will have to be reexamined. Instead, as Peter Fisher, professor at the University of Iowa, observed, economic development programs will have to provide modest amounts of equity capital and business services necessary for startup. Making a similar point, Thomas Johnson, professor from Virginia Polytechnical Institute and University, argued that Federal programs must be redesigned to meet the local needs of diverse rural areas. Among his specific recommendations were:

- Provide incentives, including Federal support, to improve rural programs in entrepreneurship, innovation, and leadership;

- Make Federal funds available to create public-private venture capital institutions in rural areas;

- Assess relevant Federal infrastructure programs in terms of their ability to meet local needs; and

- Develop effective methods to reduce the costs of doing business which are generally associated with small investments in geographically distant areas.

PART II.—THE ECONOMIC STATUS OF RURAL AMERICA

This part of the report reviews recent trends/developments in rural America, summarizing basic statistics on economic and social conditions. It also summarizes participants' discussion of the causes of these conditions and their implications for the rural population.

In recent years Congress has held numerous hearings, and prepared or requested several major studies, on the deteriorating conditions in rural America. During the 99th Congress the Joint Economic Committee released "New Dimensions in Rural Policy: Building Upon Our Heritage," while the Senate Committee on Governmental Affairs published "Coping With Change: Rural America in Transition." In the 100th Congress the House Agriculture Committee published hearings proceedings titled "Rural Area Revitalization: The Economic Problem of Rural Communities." At the request of the Senate Appropriations Committee, the ERS of the USDA conducted a study of rural conditions, "Rural Economic Development in the 1980's," which was released in 1987.

All these documents point to a series of related problems, including: a declining economic base; decaying infrastructure; inadequate access to basic services, including health care and education; local governments' eroding tax base. In addition, all identify major deficiencies in the knowledge base for rural areas, which make devel-

opment of coherent and effective policies more difficult. The net effect is reflected in the growing gap between rural and urban America with respect to per capita income levels, unemployment rates, and other major indicators. These trends are reviewed below.

The Rural Population and the Labor Force

Between 1970 and 1980, the rural population grew at a faster rate than the urban population for the first time in this century; in this decade rural population growth rates have once more dropped below urban rates. With outmigration from rural areas and more rapid growth in the urban population, the rural population has declined both in absolute numbers and as a proportion of the total U.S. population. To some degree, however, the decline is explained by expanding suburban sprawl, which has the effect of incorporating fast-growing rural areas into metropolitan areas.

Characteristics of the nation's metropolitan and nonmetropolitan populations differ in a number of ways. In addition to being older, poorer, and less educated on average than their urban counterparts, rural residents are more likely to have occupational disability,² live in substandard housing, and have less access to most social services and social assistance programs. To some degree these phenomena reflect the fact that it is young, healthy, better educated working age persons, the most likely to find employment in urban areas, who are most likely to leave rural areas.

Rural and urban poverty rates, after closing gradually through the 1970's, have widened since 1979. By 1985 over 18 percent of the nonmetropolitan population was below the poverty level, as compared to 12 percent in metro areas.

In both urban and rural counties the poor are most likely to be white, unemployed and living in a female-headed family with children. However, differences between urban and rural poverty exist. The incidents of black poverty is proportionately higher in metro areas than nonmetro, whereas, the incidence of aged poor and working poor in intact families is higher in nonmetro areas. One consequence of the higher proportion of working poor in intact families in rural areas is less access for the rural poor to social assistance. Robert Greenstein noted that current social assistance programs typically discriminate against the rural poor since most States with large rural populations provide reduced benefits to two-parent families.

Educational Status

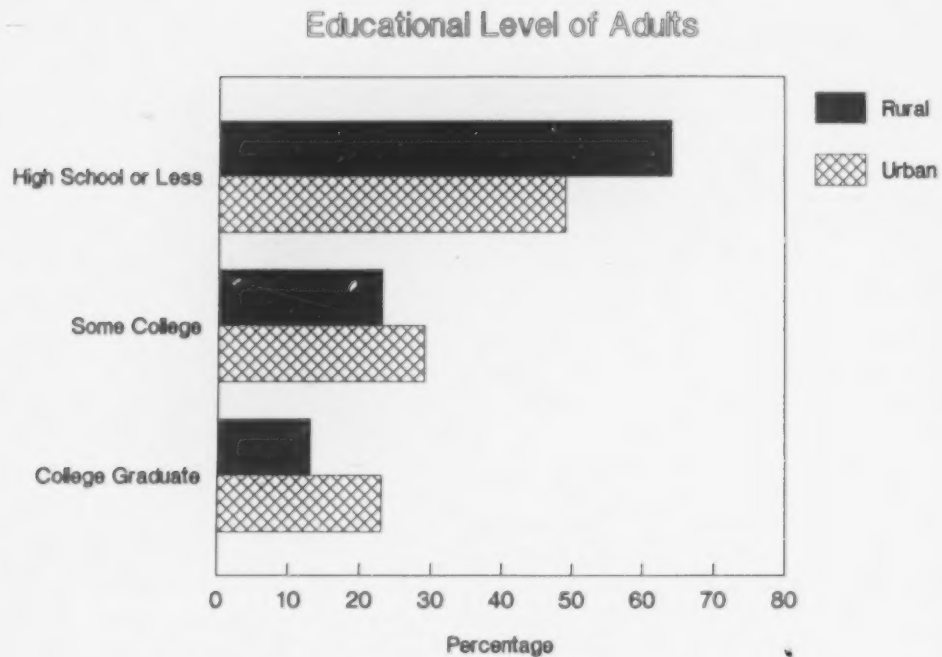
Rural residents complete fewer years of schooling than do their metropolitan counterparts. (See Figures 3 and 4.) Rural high school dropout rates are higher than metro rates. The better educated residents of rural communities are the most likely to leave for urban employment.

While school completion rates are rising in both urban and rural areas, the gap between metro and nonmetro rates is not closing. The proportion of the rural population with a college education is 23 percent lower than the proportion of the urban population. Sym-

² In 1980, work-preventing occupational disabilities affected almost 6 percent of the rural working age population as compared to 4 percent in urban areas.

posium participants suggested that the disparities reflect a lack of job opportunities for the college educated in rural areas which encourages younger workers to leave; should such jobs be created, they observed, they would, at present, be difficult to fill.

FIGURE 3

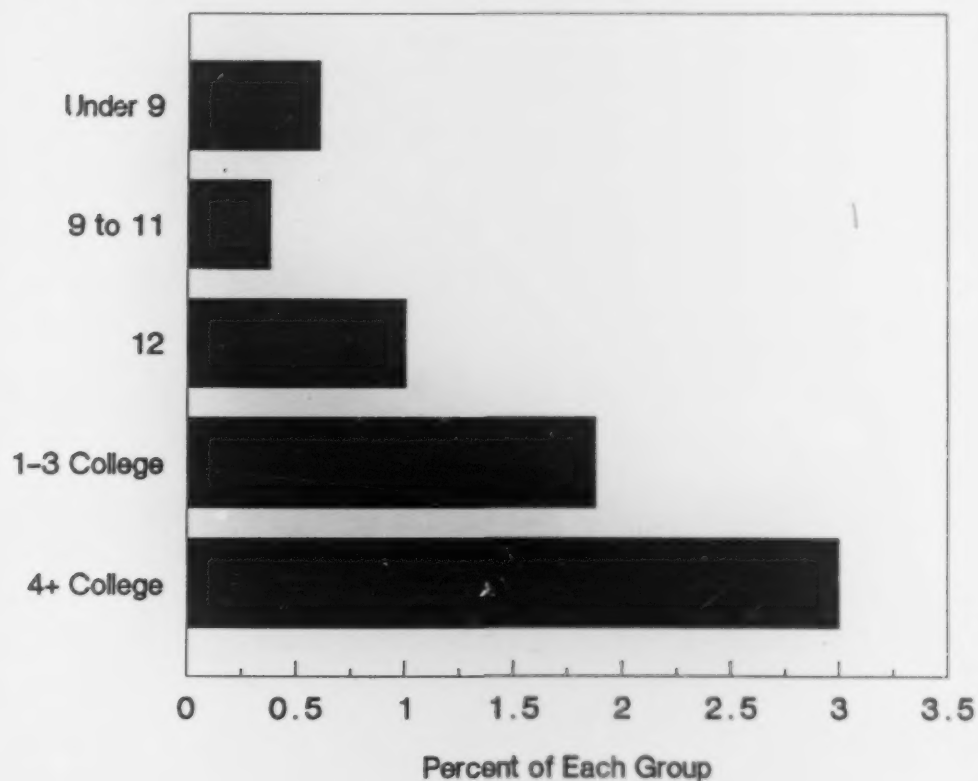


Source: Population Reference Bureau, Current Population Surveys

FIGURE 4

Outmigration by Educational Level Between 1986 and 1987

Years of Schooling



Source: Current Population Survey, March 1987

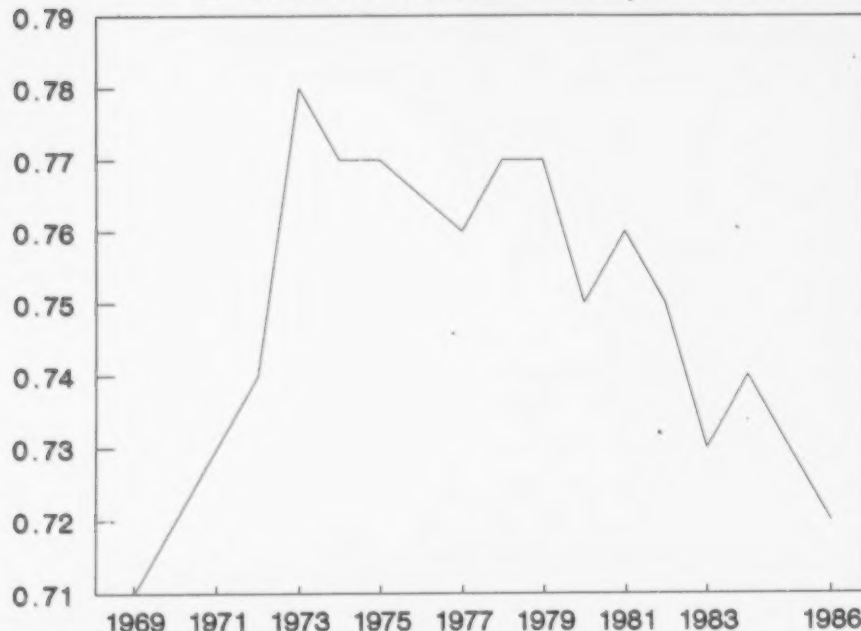
Per Capita Income

Per capita income levels in rural areas have declined relative to those in urban areas, from 78 percent in 1980 to 72 percent in 1986. (See Figure 5.) Rural incomes have fallen behind, even with considerable outmigration from rural areas since 1980 which should have reduced the supply of rural workers, thereby leading to improved per capita incomes. The persistent decline in rural incomes sug-

gests a major imbalance between job creation and labor availability which is consistent with reported levels of rural unemployment.

FIGURE 5

Rural Per Capita Income
As a Percent of Urban Per Capita Income



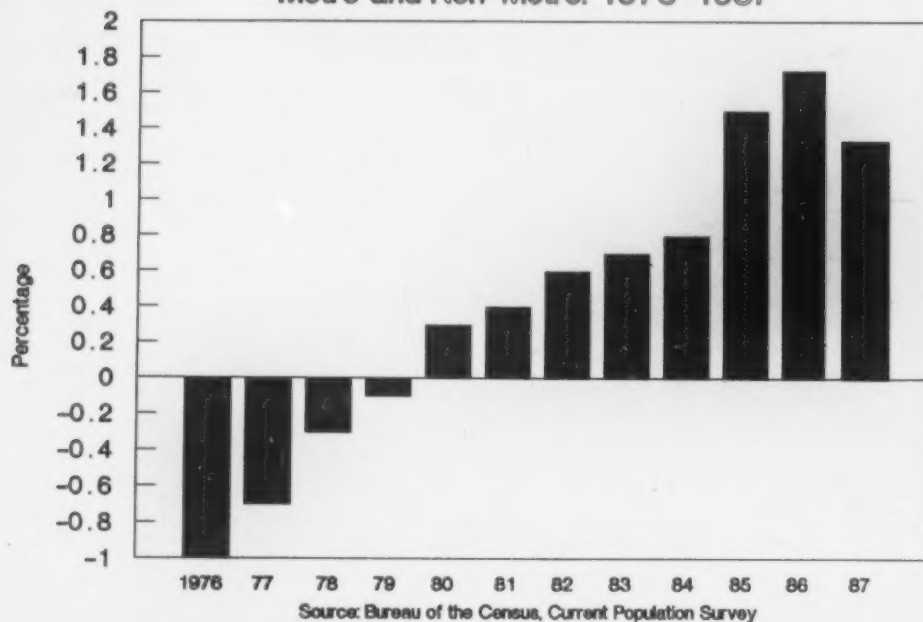
Source: Dept. of Commerce, Bureau of Economic Analysis

Unemployment and Labor Force Participation Rates

Unemployment rates are today significantly higher in rural than urban areas, a reversal of the situation seen during the last half of the 1970's. (See Figure 6.) While both rural and urban rates have fallen after rising sharply in the 1981-82 recession, the drop in rural areas has been smaller; over the 1983-87 period, nonmetro unemployment rates remained at least 2 percentage points higher than metro rates. Philip Burgess, executive director of the Center for the New West, stated that an imbalance between employment opportunities and population growth in rural areas reflects a structural transformation of rural economies which is responsible for the persistence of high employment rates.

FIGURE 6

**Difference in Unemployment Rates
Metro and Non-Metro: 1976-1987**

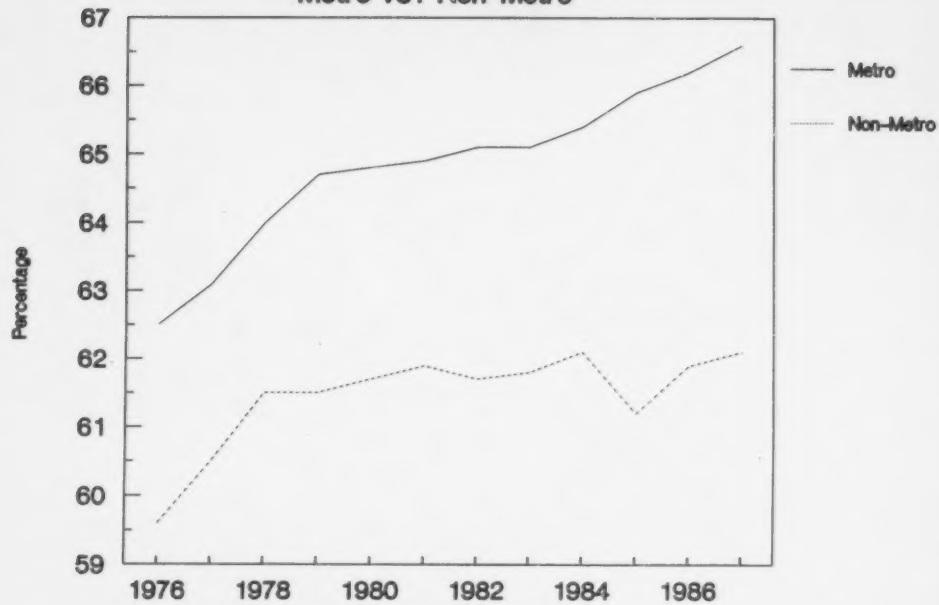


In addition, there is evidence from both university research and the Bureau of Labor Statistics that official figures tend to undercount unemployment in rural areas to a greater degree than in urban areas. This appears to reflect a greater degree of underemployment and a higher incidence of "discouraged workers"—workers who leave the work force because they are unable to find work in rural areas.

Labor force participation rates are also lower in nonmetro areas. (See Figure 7.) The lower rural rate is consistent with a higher incidence of discouraged workers and more limited job opportunities. While demographic factors, including larger families, have contributed to the traditionally lower participation rates in rural areas, data since 1980 show the disparity widening as urban rates have risen while rural rates have remained stable. Rural workers are more likely to be under the age of 20 or above the age of 55, and also more likely to have suffered some work-inhibiting disability.

FIGURE 7

Labor Force Participation Rates
Metro vs. Non-Metro



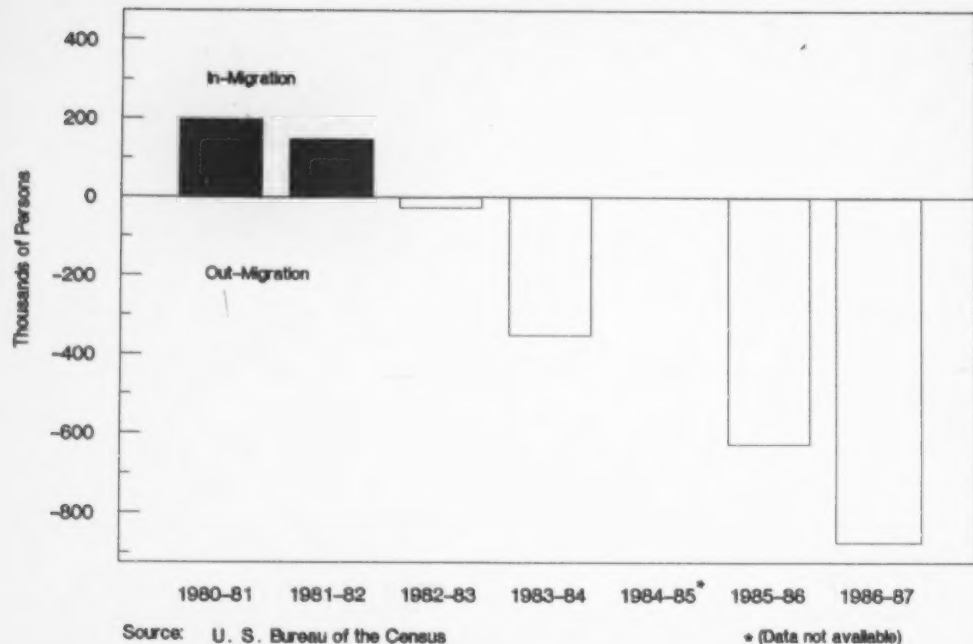
Source: Bureau of the Census, Current Population Survey

Outmigration

Over the last 50 years, urbanization of the United States to a large extent has been the result of internal migration from rural to urban areas. The trend reversed in the 1970's, but Figure 8 shows that in the 1980's outmigration has resumed, with residents of rural areas responding to lower levels of income and employment opportunities by moving into urban areas. As noted earlier, those leaving rural areas have tended to be relatively young and better educated, and their departure has constituted something of a "brain drain."

FIGURE 8

Net Migration for Rural Areas



In the discussion of this problem, Lee Bawden, director of Human Resource Policy at the Urban Institute, observed that there is little data on the availability or effectiveness of job training programs, such as the Job Training Partnership Act, in rural areas, but some evidence suggesting that rural areas were underserved by the earlier Comprehensive Employment and Training Act.

Offering another perspective on rural-to-urban migration, Thomas Stinson, professor at the University of Minnesota, suggested that economists have tended to assume greater mobility on the part of the economically disadvantaged than is typically the case; in practice ignorance of job opportunities, inadequate skills and the high costs associated with moving, all reduce mobility. He also observed that moving imposes costs on those who stay behind, in terms of loss to the community, as well as those who move: these are costs that are borne by persons who play no part in the migrant's decision whether or not to relocate.

Income and Employment Opportunities in Rural areas

During the 1980's in metropolitan areas, job creation has risen at a faster rate than population growth, whereas it has lagged in non-metropolitan areas. According to USDA's ERS, in the 1969-79 period job growth in nonmetropolitan areas exceeded that in metropolitan areas, 2.4 percent per year versus 2 percent. However, from 1979 through 1984 metropolitan employment grew at a rate of

1.2 percent per year compared to 0.1 percent in nonmetropolitan areas.

The pattern of rural employment has shown several striking trends in recent years. Agriculture, mining and manufacturing industries—traditionally major sources of employment in rural areas—experienced economic downturns in the first half of the 1980's and now account for a falling share of employment in nonmetropolitan areas. In the 1979-84 period, data from ERS shows nonmetropolitan counties specializing in these three activities experienced net declines in employment.

While employment opportunities have declined in agriculture- and mining-dependent counties, the population in those counties has increased. Employment opportunities in manufacturing-dependent counties has increased somewhat, but population has increased at a faster rate. Symposium participants and the ERS suggest that the long-term employment growth prospects in these traditional rural industries are not likely to absorb the available labor.

Manufacturing and Service Employment

The presence of manufacturing and service industries in a county does not necessarily result in improved levels of income and employment as indicated by Louis E. Swanson and Jerry R. Skees, professors at the University in Kentucky. Even during the period of relative prosperity in the 1970's higher manufacturing and service employment levels in rural areas did not raise income or reduce poverty levels. Recent analysis by the USDA's Economic Research Service suggests that manufacturing and services employment in nonmetropolitan areas tends to be concentrated in lower wage, lower skilled activities most susceptible to variations in the business cycles.³ ERS analysis also indicates that although metro and nonmetro areas have comparable proportions of skilled and unskilled jobs in consumer services industries, like retail trade, skilled and well-paid jobs in advanced producer services industries, like merchant banking and marketing, are largely confined to metro areas.

Conclusion

The slow recovery of the rural economy from the steep recession of the early 1980's is broadly reflected in data on income, employment rates, and education. In every category nonmetro statistics lag behind metro statistics. While rural areas have experienced downturns in the past, the prolonged downturn of the 1980's appears to call into question the future contribution of the specific economic function which these areas have traditionally served.

The outmigration of significant numbers of better educated members of the labor force has probably contributed somewhat to the slower pace of rural economic growth. So, too, has the rapid growth in integration of the global economy. While in the past rural areas

³ While 22 percent of manufacturing jobs are located in nonmetropolitan areas, only 10 percent of management and only 8 percent of professional-technical jobs are in nonmetropolitan areas. Conversely, the unskilled nature of rural manufacturing employment is shown by the occurrence of 29 percent of all machine operator employment and 35 percent of all process labor employment taking place in rural areas.

could count on employment of a significant proportion of the population in low-skill occupations, intensifying foreign competition has placed unskilled, low-paid rural workers at greater risk.

Rural businesses have concentrated in activities sensitive to exchange and interest rates, as well as labor costs. High interest rates and the overvalued dollar in the first half of this decade enabled foreign competitors to sell their products at lower prices and undercut rural businesses subject to international competition. While lower exchange and interest rates since 1985 have reduced foreign competitors' pricing advantage, domestic producers now must recover lost markets.

Data summarized in this chapter and discussed in detail in the symposium presentations indicate the need for a broad redefinition of employment opportunities if the rural economy is to be rejuvenated. Such a redefinition will require better education and training for workers, more efficient management of existing industries, and the development of new enterprises less vulnerable to low-wage, low-skill competition from abroad.

PART III. THE ROLE OF THE FEDERAL GOVERNMENT

In order to consider potential roles for the Federal Government in encouraging rural economic activity, the symposium examined both Federal-State-local interrelationships and prospects for cooperative Federal-private sector efforts. Symposium participants were generally in agreement that a redefined Federal role must take into account: changes in rural America, limits on the Federal budget, expansion of State economic development programs, and the relatively recent development of private agencies which promote economic growth.

The Rural Database

Participants agreed that the Federal Government should have the primary role in the collection and dissemination of rural data. Pointing out that formulation of effective new rural development policies would be very difficult without better Federal data collection programs, they focused on inadequacies in the existing system of data collection and possible means of improvement.

Among the significant problems identified and discussed was the absence of agreement on a definition of "rural," with the result that different public agencies using different definitions assemble data in forms which are not readily comparable.

A second problem is the growing diversity of rural areas, with the result, as Glenn Nelson, professor at the University of Minnesota pointed out, that national surveys have become less reliable as adequate indicators of local conditions; while a relatively good set of data is available on the agricultural sector, growing rural diversity has made it less useful. Another problem, discussed by James Bonnen, professor at Michigan State University, is the high cost of adequate data collection in rural areas, which often precludes the production of meaningful rural statistics.

These problems have existed for years, according to "Rural America in Passage," the report of the National Research Council on rural statistics for policy purposes. As Bonnen noted in his

paper, however, the recommendations put forward in the report for improving the rural database have not been implemented, and in fact since 1981 the Federal Government has significantly reduced its data collection efforts. Because rural concerns have generally been given lower priority than urban concerns and data collection costs are higher in rural than in urban areas, reductions in the statistical agencies' budgets have had a disproportionate effect on rural statistics. The result, according to Robert Greenstein, is that in virtually all social and economic indicators there is now a sizable gap between rural and national averages that receives little attention.

One relatively inexpensive way to improve the rural data system, according to Bonnen, would be to require county codes on all survey responses, thereby at least facilitating classification of data on a metropolitan/nonmetropolitan basis. To better infer local area information from national surveys, Nelson proposed linking national survey data, which provide information on numerous variables, to regional surveys with fewer variables. But there was general agreement that assembling a comprehensive and reliable rural database would require greater expenditure on both the number of data series collected, and on increasing the number of individuals surveyed in rural areas.

Offering yet another perspective on the problems of an inadequate database, several participants noted that inadequate evaluation analysis in the past has led policymakers to rely on anecdotal information about the success or failure of earlier programs. In the absence of careful evaluation, past mistakes are more likely to be repeated and successes overlooked.

Coordination and Leadership

An emerging issue in rural development is the coordination of government and private sector activities. Because only limited information on this recently emerged question is available, one session of the symposium was devoted to reviewing this information and addressing problems of coordination.

Dewitt John, senior economist at the National Governors Association, and Douglas Shumavon, professor at Miami University in Ohio, underscored the important role that the Federal Government can play by facilitating coordination and improving the management capacity of State and private sectors programs, and stimulating capital generation for development purposes. William Nagle, senior associate at the World Resources Institute, underscored the importance of presidential leadership and interest in stimulating effective action. In the absence of presidential leadership, he said, neither the USDA nor any other agency can effectively coordinate the actions of other Cabinet-level departments, which have their own priorities.

Ronald Brach, executive director of the Legislative Commission on Rural Resources, State of New York, observed that in New York both the Governor's office and the legislature have established small rural policy offices to bridge the gaps separating line agency programs. He suggested that the effectiveness of these offices hinges on the support of the Governor and the legislative leadership.

Alvin Sokolow, professor at the University of California-Berkeley, emphasized in his paper the importance of effective coordination and leadership among various agencies on the local level as well as at the State and Federal levels. The ability of a community to coordinate and manage change, he said, is a distinguishing feature of successful economic development efforts. Pointing out that local leadership is vital if economic development is to be sustained, Sokolow also suggested that local officials, as part of their jobs, must make an active commitment to economic development; this should include setting goals and formulating strategies for achieving them.

Thomas Stinson, professor at the University of Minnesota, argued in his paper that a major defect of Federal policy has been the failure to define clearly the objectives of rural economic development. Legislation has put in place the building blocks for development programs, but there has been no coherent and effective strategy for coordinating their use. In part this reflects the diverse nature of rural America, he suggested, but it also reflects reluctance on the part of the Federal Government to identify goals and maintain a long-term Federal commitment to them.

Management Capacity

Improving management capacity in rural governments was identified as another important role for the Federal Government. Participants agreed that the Federal Government can play a significant role in providing communities with technical assistance to develop priorities and strategies, citing the Cooperative Extension Service of USDA as a useful model.

Provision of Capital

Over the past 10 years a decisive change has taken place in the philosophy of rural economic development. In the last few years the importance of small business as a source of economic growth nationally has been incorporated into the rural economic development. Since the 1930's the Federal Government has been a major source of capital for rural economic development by providing money either through loans or grants to rural businesses and communities through the Farmers Home Administration, the Small Business Administration, and the Economic Development Administration.

In rural areas the majority of the Federal money provided in the past for nonagricultural economic development purposes went to create infrastructure. Presentations by Peter Fisher, professor at the University of Iowa, and Douglas Shumavon, professor at Miami University of Ohio, showed the extent to which Federal funds for development purposes have been reduced in the 1980's; while to some extent these funds have been replaced by State sources or through the creation of nonprofit agencies, access to capital continues to limit economic development, particularly business development.

Participants proposed several means for increasing the availability of capital in rural areas: a national rural development bank; rural venture capital organizations; loan guarantees; direct Federal and State funding; improved access to credit from commercial lend-

ers. The participants' consensus was that the most effective approach to capital generation would be to undertake a combination of measures rather than relying on any one of them.

Limits on the Federal Role

While outlining appropriate roles for the Federal Government, symposium participants underscored the central importance to successful rural economic development programs of local communities being fully involved in the process of planning and implementing development strategies. Several participants concluded that past programs, which targeted Federal funds for specific projects, had often been ineffective precisely because they worked at cross-purposes with local needs and priorities. The view that economically successful communities grow from a local base, not as the result of a top-down, Federal Government-imposed growth strategy, was widely held.

The appropriate role of the Federal Government according to John, Fosler, Johnson, Fisher, and other participants, is to create an environment that supports growth. Thomas F. Hady, agricultural economist at USDA's Economic Research Service, argued that the diversity of economic conditions in rural areas makes macroeconomics policy too blunt an instrument for targeting economic growth to any one sector or region. He maintained that a stable set of macroeconomic policies, eliminating sharp turns in monetary and fiscal policies, enables all communities to plan more successfully for the future.

Participants also noted that some communities may not want to grow. There are communities where the residents are content with their existing level of development and facilities, and are unwilling to accommodate new businesses. Although it is commonly thought that these communities will decline and disappear over time, Stinson emphasized that they may indeed survive indefinitely as local service centers. In such cases, the appropriate role of the State and Federal Governments may be to assist the community in making the transformation into a smaller but stable economic unit.

James MacMillan, professor at the University of Manitoba, and Peter Fisher, professor at the University of Iowa, among others, suggested that the Federal Government should not become involved in initiatives where the benefits will flow primarily not to a community, but to individuals in the community. Grants for industrial development would fall in this category if they provide funding to a firm to undertake actions which it would have followed even if the assistance had not been available.

Public and Private Initiatives

In the context of continuing severe budget constraints, seminar participants saw a particularly important role for the private sector in assuring rural economic development. They agreed that although the private sector's role is already considerable it can be expanded further. Thomas Johnson, professor at Virginia Polytechnic Institute and University, outlined conditions likely to attract and promote entrepreneurship, including the availability of labor training and retraining opportunities, adequate infrastructure,

community leaders' ability to identify growth opportunities and stable macroeconomic policies.

Shumavon and Fisher reviewed the private-public sector relationship, identifying some areas where private initiative has replaced Federal Government activity and others where the private sector cannot effectively fill the gap created by reductions in Federal programs. Shumavon used the example of the difficulty smaller non-profit enterprises in Ohio have in obtaining resources to fund social service programs. While governments face similar problems with respect to social services, they are better equipped to raise the necessary funds.

Fisher noted that while there have been notable successes in raising private risk capital for rural development purposes, they have occurred primarily in areas where capital constraints were the major impediment. Access to money, he argued, whether from public or private sources, does not automatically guarantee economic development. In areas where capital markets prove inadequate to meet demand, a partnership of public and private funds may be an effective alternative.

CONCLUSION

From the consideration of the two central questions posed by the symposium—What is meant by "rural economic development"? and, What is the appropriate role for the Federal Government on the development process?—a number of common themes emerged. These are summarized below, to assist congressional efforts to develop effective rural policies for the 1990's.

1. Attention should be given to better defining what is meant by "rural." As yet there is no wholly satisfactory definition of the term, which incorporates notions of distance, low-population density, specialized resource-dependent economies and diversity. The current practice of defining "rural" as "nonurban" by drawing the distinction between counties within standard metropolitan areas and those excluded, means that a significant portion of the nation is overlooked.

2. The rural database needs improvement. Data resources currently available are inadequate to the tasks of assessing the magnitude of rural problems, evaluating rural programs, and developing effective economic development strategies.

3. Government should participate more actively in efforts to improve the economic capacity of rural America. In certain areas, among them education, job training, health and infrastructure, market forces and even State and local governments cannot wholly replace the Federal effort. Furthermore, Federal investment in these areas produces significant benefits that accrue to the nation as well as to the region which benefits directly.

4. The prolonged downturn in the rural economy in this decade may reflect long-term structural change. Technological innovation and shifts in global competition may have reduced the markets for traditional rural industries. If this is the case, it will be necessary to seek out new sources of employment and growth, and these are most likely to be found in innovative businesses filling specialized

niches, and not in traditional manufacturing and resource-based sectors.

5. The respective capacities of Federal, State, and local government to promote economic development have changed. Functions earlier carried out by the Federal Government are now being undertaken by State and local governments. The altered perspective suggests that the Federal Government can contribute most effectively by working to remedy serious discrepancies in economic development among the States, by placing rural development higher on the national agenda, and by putting in place policies that promote a stable national economic environment. In addition, the Federal Government can increase the efficiency of its efforts by coordinating the delivery of its programs both within the Federal Government, and with the States and the private sector.

6. The stimulation of entrepreneurial activity in rural areas is critical to successful rural development. Participants argued that expanding employment opportunities in rural areas requires the creation of new small businesses. Entrepreneurial activity is important for communities, too. Successful community development is based upon businesses and local governments recognizing opportunities and working to achieve them. While the Federal Government cannot create entrepreneurs in businesses or in local government, it can contribute to their activity by improving the knowledge base and providing technical assistance.

I. PANEL ON RURAL ECONOMIC CONDITIONS: THE KNOWLEDGE BASE

The premise of this workshop was that rural development is not a matter that can be left entirely to the marketplace, but that government has a role to play in keeping rural communities viable. The question before the panelists was how the various levels of government should get involved, and what they should do.

In order to focus the discussion, panelists were asked to concentrate on the issues in a particular class of rural area—those characterized by large numbers of long-term poor or temporarily poor residents. The challenge was to identify ways in which government and private sector profit and nonprofit institutions would work together to develop income and employment opportunities in these areas.

The first panel was asked to think about what policymakers need to know to develop policy for these areas, and whether the knowledge base is adequate. Jim Bonnen's paper focuses on the database, especially on the recommendations made in 1980 by the National Research Council's Panel on Statistics for Rural Development Policy. Bob Greenstein was asked to review the potential impact on rural people of a recent major change in policy—welfare reform. Bob Hoppe summarizes current knowledge regarding key characteristics of the temporary and the persistent poor in nonmetropolitan areas. The texts of their papers are printed in this chapter.

Two discussants, Mil Duncan of the Aspen Institute and Lee Bawden of the Urban Institute, were asked to comment on the issues and the papers. Ms. Duncan identified four ways in which the rural development knowledge base needs to be strengthened:

1. Better designation of rural areas to reflect and express differentiations among rural areas; for example, we need to distinguish the situation of rural areas close to metropolitan areas from those that are remote. The problems facing the first group are those that come from having the economic pulls outside the community, that involve people commuting out to work and shop, or the gentrification that comes when people move further out from the suburbs or people retire there. These areas need growth management. They need to make their boom work for everybody in their community. Duncan suggested that public goods may need to be stressed more in these places, which may go against the grain. Remote rural areas usually depend on natural resources or recreation and retirement. Duncan suggests that these communities have even less *raison d'être* than they did before, at least for growth, and for keeping the young people there.

2. More timely, regular information about how work and income are distributed between remote rural areas and those

linked to urban centers, and between rural areas, suburbs, and central cities.

3. More longitudinal data and studies. Duncan noted that the University of Michigan's Panel Study of Income Dynamics recently put geographic identifiers on the files of the 5,000 families in their study, which could be useful in analysis of change in rural areas. She also reported that the Ford Foundation's Rural Poverty Resources Program was beginning a study that will stress longitudinal analysis and qualitative studies.

4. More qualitative studies and more program experiments.

Lee Bawden's comments emphasized the lack of information regarding major Federal programs for enhancing employment and income. He suggests that, especially in rural areas, lack of basic skills is a greater barrier to employment and training than policy-makers had thought. Bawden identified two Federal programs as particularly significant for basic skill training in rural areas: the Job Training Partnership Act and the Adult Basic Education program. Bawden said there is little information available regarding the rural share of benefits from these two programs, or how they operate in rural areas. He suggests that it might be possible to get such data by tightening up Federal reporting requirements and by conducting special studies.

Bawden recommended that Federal funding of training programs be increased substantially. He argues that the funding must be done at the national level because the poorest States have the largest number of poor and the largest number of people without high school educations.

THE STATISTICAL DATABASE FOR RURAL AMERICA

By James T. Bonnen^{1 2}

My task is to comment on the adequacy of the database for decisions about rural America by first reviewing the 1981 National Academy of Sciences' panel report, "Rural America in Passage: Statistics for Policy." The Report makes a number of recommendations for improving the rural development database. Where does this knowledge base stand today? I will focus on what can and should the Federal Government do that could make a difference. First, a few general observations.

Statistics are perishable. They deteriorate over time if you do not continually invest in their renewal and improvement. The society's economic and social structures and behaviors change over time. Attempts to describe these phenomena must periodically be evaluated and adapted in concepts, real world proxies selected to represent concepts, and in techniques of measurement, if the statistics produced are to remain accurate representations of the changing real world. The fact is, for at least a decade we have allowed our Federal statistical capacity to deteriorate.

The real resources budgeted for Federal statistical agencies have been reduced by 15 to 20 percent since 1980. If one takes out of the time series in the attached table the Bureau of Labor Statistics and Census Bureau budgets, where since 1985 large statistical programs have been transferred in from other agencies (creating an upward bias), and the Energy Information Administration, which has lost major statistical programs due to deregulation (a downward bias), one observes a 30-percent decline in real resources available to Federal statistical agencies between the 1980 and 1987 fiscal years. If National Agricultural Statistics Service budgets are any indicator, real resources devoted to rural statistics have decline by at least 20 percent. Irrationally administered paperwork budgets have further constrained and injured statistical quality and capacity [Wallman].

BUDGET AUTHORITY FOR MAJOR STATISTICAL AGENCIES 1980-87

[Fiscal years—Millions of current dollars]

Agencies	1980	1981	1982	1983	1984	1985	1986	1987 estimate
Census Bureau: Current programs (excludes periodic censuses)	53.7	57.2	57.2	69.2	77.4	85.3	86.5	90.8
Bureau of Labor Statistics (S&E only)	102.9	111.1	113.1	121.7	137.3	152.9	151.8	167.9
Energy Information Administration	90.8	90.4	78.9	56.4	56.4	60.9	57.7	60.3

¹ Department of Agricultural Economics, Michigan State University.

² Presented to the symposium on "Towards Rural Development Policy for the 1990's: Enhancing Income and Employment Opportunities," sponsored by the Congressional Research Service at the request of the Joint Economic Committee of Congress, Washington, DC, Sept. 29-30, 1988.

BUDGET AUTHORITY FOR MAJOR STATISTICAL AGENCIES 1980-87—Continued

(Fiscal years—Millions of current dollars)

Agencies	1980	1981	1982	1983	1984	1985	1986	1987 estimate
National Agricultural Statistics Service.....	49.0	53.8	51.6	51.8	54.4	58.3	56.2	58.3
National Center for Health Statistics.....	38.1	38.8	43.3	37.9	38.2	42.8	44.6	52.1
Bureau of Economic Analysis.....	15.8	17.1	18.0	19.1	20.3	21.4	20.5	21.9
Bureau of Justice Statistics.....	16.3	14.1	15.6	16.5	18.1	17.6	16.0	19.0
National Center for Education Statistics.....	14.9	14.4	14.4	14.4	14.0	14.1	12.3	14.1
Total Nominal dollars.....	381.5	396.9	392.1	387.0	416.1	453.3	445.6	484.4
Deflator.....	1.00	1.16	1.22	1.27	1.31	1.36	(1.42)	(1.47)
Total real (1980) dollars.....	381.5	342.2	321.4	304.7	317.6	333.3	(313.8)	(329.5)
Percent change from 1980.....		-10.3	-15.7	-20.1	-16.7	-12.6	(-17.8)	(-13.6)

Data for 1980-1984 are from the U.S. Congress, House Committee on Government Operations, "An Update on the Status of Major Federal Statistical Agencies, Fiscal Year 1986," 99th Congress, 1st Session, Washington, DC, May 1985. Data for 1985-1988 are from (1) Katherine K. Wallman, "Federal Statistics in the FY 1987 Budget," AAAS Report XI: Research and Development FY 1987, Washington, DC: American Association for the Advancement of Science, 1986, pp. 257-266, and (2) Katherine K. Wallman, "Federal Statistics in the FY 1988 Budget," AAAS Report XII: Research and Development FY 1988, Washington, DC: American Association for the Advancement of Science, 1987, pp. 233-242. Some data for 1985-87 have been updated based on more recent data from agencies in the files of the Council of Professional Associations on Federal Statistics. Census numbers do not include budgets for the periodic censuses which fluctuate widely from year to year. BLS numbers are for Salaries and Expenses and exclude unemployment compensation trust funds which we did not have for years earlier than 1985. Both Census and especially BLS budget numbers since 1985 are biased upward by transfers of programs from other agencies. Since it was not possible to obtain separate data on program transfers for every year, they had to be left in the totals for the agency. The deflator used is that for non defense Federal purchases other than Commodity Credit Corporation; 1986-87 deflators are estimates by the author and thus so are total real (1980) dollar figures for the same years.

Since 1981 we have had an administration that, by now it is obvious, just does not like statistics. Apparently, accurate measures of what is going on in the world are a waste (i.e., their policy decisions do not require factual evidence?) and periodically are an embarrassment. In the Executive Office, especially in OMB, we have witnessed the impact on policy of a libertarian ideological disease that sees domestic public investment as having zero productivity and would, if not constrained by Congress and public opinion, have dismantled most domestic public investments including statistics [Bonnen].

Statistical agencies have been forced to drop individual series, reduce sample sizes and the detail in some national data sets as well as directly eliminating much small area data [Wallman]. Since rural statistics intrinsically involve the need for small area data, and such data are far more expensive to collect than national aggregates, they are usually the last numbers collected and the first affected by cutbacks. With the exception of major national agricultural statistics, the rural database has long been quite inadequate. It is poorer today than it was in 1980 not only due to neglect but to budget and paperwork driven reductions in sample size and in small area data collection for health, housing, education, employment, and income statistics and for the various censuses.

The one bright spot is the continuing dedication, capability and sophistication for rural economic and social research and selected data collection in the Agricultural and Rural Economics Division of the Economic Research Service in the USDA. They have continued to do their best to maintain up-to-date knowledge on rural society. We would have a far poorer knowledge base without their effort.

THE 1981 NATIONAL ACADEMY OF SCIENCES' REPORT

I chaired a NAS panel in 1979-80 that attempted to assess the statistical base for rural development policy. The Farmers Home Administration (FmHA) of the Department of Agriculture requested and financed this study. The Panel Report, "Rural America in Passage: Statistics for Policy," start with some observations that are worth remembering. The first is that rural development is an ill-defined problem.

Our (factual) knowledge of rural people and their environment is imperfect and incomplete. (It consists mostly) of annual statistics for large aggregations of areas with only occasional benchmark data for census years for small areas. (And) aggregated data are often misleading because rural areas are so heterogeneous. . . .

The prescriptive dimension of rural development (what should be) is equally ill-defined because of the heterogeneity of rural areas, the disagreement among rural people about growth and planning, and the lack of coordination of governmental efforts on rural issues.

The operational aspects of development policy (how to get from here to there) are not well understood. Linkages between the tools available to government and their effects on the quality of life are well defined only when the chain of causation is short and direct. (See p. 192.)

The Panel also believed strongly that it made no sense, in a society in which rural and urban areas are so interdependent, to attempt to develop a single, comprehensive rural data base or system separate from the data systems for the rest of the population. Rather we need to make the existing statistical system more flexible, accessible and capable of addressing rural issues. In that spirit it made a number of major recommendations few of which to my knowledge have been implemented.

Several new statistical standards and conventions were recommended:

1. Current reporting practices for rural data are highly variable and often frustrate rather than facilitate aggregation and comparisons. Since no single definition of rural is feasible or desirable, data should be organized in a building-block approach. The county is the most commonly used geographic unit for reporting small-area data. (County coding would) facilitate aggregation regardless of how rural is defined.

Recommendation: Federal and State data (should) be recorded with a county code to permit tabulations for individual counties and groups of counties. (Chapter 2 and p. 194.)

No such standard has been developed.

2. To make comparisons and assessments of the geographic impacts of programs, a common aggregation scheme for counties is needed.

Recommendations: A standard classification of nonmetropolitan counties relating to level of urbanization (in the spirit of the Hines et al. [1975] classification) (should) be developed for use in program analysis and evaluation at each level of government. If possible, the county classification should be supplemented by a distinction between urban and rural areas within counties. (Chapter 4 and p. 194.)

No standard classification exists today.

3. Although many programs and data systems are appropriately left to State and local governments, the use of standardized definitions and procedures at State and National levels has distinct advantages. The function . . . can be performed effectively only at the Federal level. . . .

Recommendations: The Federal Government (should) take a more active role in the coordination of statistical activities and in developing and promulgating common definitions and other statistical standards that are appropriate for implementation at the Federal, State, and local levels. (Chapter 4 and p. 195.)

No standard definitions and procedures have been developed for rural statistical needs. There is less institutional capability for developing and implementing statistical standards today than in 1980.

For a complete or effective statistical system, the state need similar capability for establishing and implementing common statistical standards.

4. Statistical activities and standards must also be managed at the State level. States are solely responsible for many statistical programs, and state officials have a major interest in many other statistical activities in which the State shares responsibility for producing data with other levels of government or for which the State is a major user of data produced by other governmental levels. The panel believes that each State should have a program-neutral statistical coordinating agency with statewide responsibilities.

Recommendation: Each State (should) designate or develop an organization for managing the State's role in statistical coordination and in establishing and implementing standards, if such an organization does not now exist. (Chapter 4 and p. 195.)

Few States have achieved this capacity.

The Panel recommended five new basic procedures for generating and reporting data that would improve the rural database.

5. The difficulties of defining rural should not be allowed to result in inequitable treatment for rural people, as may occur when rural is defined as the residual that remains after the delineation of urban. . . .

Procedures for obtaining, analyzing, and reporting data should be developed to provide data for rural people and

problems that are comparable in scope and reliability to those for SMSA's. Designation of standard statistical areas (SSA's) encompassing the entire geographic area of the nation would provide continuous, inclusive, and systematic data based on boundaries that would be changed less frequently than the presently relaxed SMSA criteria.

Recommendation: A system of standard statistical areas (an extension of the present set of SMSA's) to encompass the entire geographic area of the nation (should be developed and implemented). (Chapter 2 and p. 196.)

This has not been done.

6. The cost of surveys large enough to provide reliable direct estimates of desired measures for small local areas is prohibitive in many situations. In such situations it may be possible to use existing information to construct local area estimates. Some of the more promising statistical techniques are described in the panel's report. (See Chapter 12 and Appendixes G and H.)

Recommendation: State and Federal agencies (should) give high priority to upgrading the quality of small-area estimates and projections, particularly those used to allocate funds. (Chapter 12 and p. 197.)

We are worse off today having lost much small area data and added little since 1980.

7. One of the most important components of Federal health programs aimed at alleviating geographic maldistribution of resources is the identification and designation of those specific areas that are most in need.

Recommendation: Public Health Service agencies such as the Health Resources Administration and the Health Services Administration (should) devote further effort to the development of a definition of health service scarcity and to research on measures of this concept. (Chapter 7 and p. 197.)

My inquiries did not produce any evidence of effort to improve these measures.

8. Education is an important factor in individual and community development. The financing and organization of schools are major concerns of State and local governments. The low density of students in rural areas affects school organization. Despite these compelling and well-known facts, the National Center for Education Statistics does not tabulate data on a rural-urban spectrum.

Recommendation: Codes for rural-urban location of school districts (should) be recorded with all school district data (pupil, personnel, curriculum, finance, and facilities) to facilitate comparison of resources available to rural and urban school districts. (Chapter 8 and p. 197.)

The National Center for Education Statistics has developed a population density, seven-step classification for coding individual school (not district) data. When implemented, it should achieve this

goal. However, the mandatory collection of the core of education statistics does not now require adequate location identifiers for matching census population data and some states still do not voluntarily provide adequate information on school location.

9. Progress toward meeting development goals often entails identifying particular groups of the population, measuring their welfare, and meeting their special needs. Public opinion has shifted from a general faith in the goodness of aggregate growth to more sophisticated concerns for the quality of growth, including the question of who gains and who loses. Numerous action programs targeted for specific groups of the population have been a response to distributional goals and values.

Recommendation: Government agencies (should) include additional frequency distributions or measures of dispersion in presenting data, especially for income, wages, housing quality, health, and the adequacy of public services. (Chapter 12 and p. 198.)

There have been some improvements and some losses with no net gain since 1980.

Several improvements in institutional linkages were recommended.

The panel's review of the current statistical activities for rural development reveals a pressing need for better communication linkages among the parts. In fact, the linkages and coordinating institutions are either missing or so poorly developed that the term "information system" is not even appropriate. The recent conclusion of the Advisory Commission on Intergovernmental Relations that "contemporary federalism is in serious disarray" [Beam] applies to rural development with particular force. Some settled order of compatible roles and of linking decision institutions must prevail from local through Federal levels of government before one can specify a coherent rural development policy data base. (See p. 198.)

10. *Recommendation: State Statistical Service Centers.* The panel recommends that each State develop or designate a lead institution (or institutions) in the State to facilitate local government access to State and Federal statistical information, if no such institution currently exists. The panel further recommends that the Federal Government encourage use of the statistical service centers by providing general financial assistance. (Chapter 4 and p. 199.)

The Census Bureau program for helping States develop State data centers has led to substantial attainment of this recommendation, although the breadth of access to existing databases varies greatly by State, depending on the level of State resource commitment and leadership.

11. *Recommendation: Representation on Advisory Committees.* The panel recommends increased representation of

local and regional users of information on Federal statistical advisory committees. (Chapter 4 and p. 200.)

There has been no action on this recommendation.

12. *Recommendation: Federal Information Locator System:* The panel recommends that the (OMB) Federal Information Locator System (FILS) be developed as rapidly as possible with an expanded mission to provide public access to Federal data source. (Chapter 4 and p. 200.)

Federal law now enables public access to the FILS file. Implementation is still lacking but discussions are underway in OMB and the agencies on how to achieve this goal. FILS needs further development since it is now a file of requests to collect data, not descriptors of actual output (publications, electronic files, etc.).

In addition, recommendations were made to extend or improve on existing statistical products that could provide high-priority, specific data bases for rural policy needs.

13. *Recommendation: Middecade Census.* The middecade census of population and housing (should) be implemented at the earliest possible date as required by the 1976 legislation. If the middecade effort takes the form of a large sample survey rather than a complete count, the sample (should) be large enough to permit direct estimates or good regression estimates for all counties, the basic building blocks of the data system. (Chapter 5 and p. 201.)

No middecade census has ever been funded.

14. *Recommendation: Federal Outlays.* In reporting Federal outlays data, the program agencies, in cooperation with the Office of Management and Budget and the Community Services Administration, (should) make a greater effort to improve the quality and geographic detail of the data and to provide users with information on the quality and limitations of the various components of the report. (Chapter 10 and p. 202.)

The Census Bureau now has responsibility for reporting Federal expenditures. These data are greatly improved in quality and the entire database is now county coded and capable of providing any geographic aggregate of counties at regional, State, or local levels.

15. *Recommendation: Survey of Income and Program Participation.* The Survey of Income and Program Participation (SIPP) (should) be expanded to include samples of clients of rural development programs and rural clients of general programs. Agencies with rural development responsibilities (should) provide the funding for the cost of the additional samples. (Chapter 12 and p. 202.)

This recommendation has not been seriously addressed.

16. *Recommendation: Underemployment Index.* The Office of Management and Budget (should) establish an interagency committee to guide the conceptual research for and the development of an underemployment index for counties on a periodic basis. The Bureau of Labor Statis-

tics (should) fund the research and assume the responsibility for implementing the procedures upon the completion of the methodological study. (Chapter 10 and p. 203.)

OMB has done nothing on this.

17. *Recommendation: Rural Cost-of-Living Index.* The Bureau of Labor Statistics (should) provide an annual index of cost-of-living differentials between each of 8 to 10 rural areas and selected urban areas. (Chapter 10 and p. 203.)

No progress has been made on developing a rural cost-of-living index.

These recommendations identify major deficiencies in the rural policy database and information system as perceived by the NAS Panel in 1979-80. Several assume an existing, effective statistical policy coordination unit in the Executive Office of the President capable of acting on such recommendations. From the late 1930's until 1977 such a unit, the Statistical Policy Division, did exist in the Office of Management and Budget. In 1977 it was transferred to the Commerce Department and in 1981 these functions were returned to OMB by Congress, but buried in a highly political regulatory policy unit, the Office of Information and Regulatory Affairs (OIRA), where it now languishes. This resulted in all the leadership and much of the staff being stripped away. Subsequently OMB dismantled what was left and dispersed the remaining personnel to other roles in OIRA. Congressional objection forced the creation of a minuscule pro forma section on statistical policy without credible leadership or capacity [Bonnen].

The abuse of statistics and ignorance of its economic and social role among OMB and White House leadership since 1981 has all but destroyed the surviving potential. Before there is any ability to develop significant new statistical standards, procedures, institutional linkages and specific databases that integrate and extend existing statistical agency products to serve rural America adequately, the capacity for statistical policy and standards will have to be reestablished.

Clearly the current highly politicized, presidential shock troop role of OMB is incompatible with a function requiring objective long-term analysis, establishing nonpoliticized statistical standards and coordinating fairly and objectively the statistical policies of the multitude of statistical agencies in government [Berman]. Nevertheless, a Federal statistical policy and standards unit, led by a Presidential appointee, is needed somewhere in the Executive Office of the President before much progress can be made on many of these NAS Panel recommendations.

Another major institutional deficiency is the lack of an effective focal point for the development and coordination of rural policy, including related statistical policy. The Department of Agriculture has been designated the lead agency to coordinate and lead rural policy development, but to date (with occasional flares of real effort) it has defaulted on this policy leadership role. Without fairly clear policy direction, it is difficult to specify a coherent rural database.

In fact, any policy area is interdependent with its database. Without clear policy goals, no coherent policy database can be developed. But without a good database, it is not possible to develop a clear statement of the problem to be addressed, policy prescriptions, or means of implementation. Thus, databases and policy must develop together in an iterative, interactive manner if their interdependence is not to be a major constraint. We are unlikely to have an adequate rural database until we have a coherent, consistent rural policy—and vice versa.

OTHER AREAS NEEDING ATTENTION

Looking at the recommendations of the 1981 NAS Panel Report, I see several areas that need greater attention. One is the environment. Today our environmental problems and database needs have greater urgency and clarity. For example, both ground water contamination and air pollution are serious and growing problems. Waste disposal and toxic chemicals affect health and degrade the environment. All of these are national and international problems, not just rural issues. Rural communities, however, are faced with their share of intense and growing problems in this area.

Rural poverty is growing again and is another area in which substantial improvement in the database is called for [O'Hare]. The last few years have seen considerable conflict over the concepts as well as the measurement of poverty. In the 1960's the Council of Economic Advisers and later Molly Orshansky in the Social Security Administration developed poverty measures that, given the limits of then available data, were useful starting points, but it is time to do a better job in both conceptualizing and measuring poverty. For the diversity of rural community environments, we need better indicators of the varied sources and character of poverty and deprivation. Indeed, we need far better measures of the human resources of rural society.

Finally, I believe the Department of Agriculture needs to develop and Congress needs to fund a comprehensive rural household survey universe and sampling capability. With increasing frequency various policy information requirements involving rural issues come up against the fact that national household surveys cannot provide accurate (small area) data on rural areas. We keep mounting episodic rural surveys and I believe it is time to investigate the feasibility and cost effectiveness of a continuing institutional capability that will support multiple purposes, including on demand expansions of CPS, SIPP and other major surveys to provide accurate rural area statistics as they are needed by policymakers. The National Agricultural Statistics Service (NASS) working with the Agricultural and Rural Development Division of the Economic Research Service have the expertise for researching and implementing this database capability.

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WELFARE REFORM IN RURAL AREAS

By Robert Greenstein ¹

Let me start by saying that while I was not in that many of the welfare reform discussions, I do not remember any in which I did participate where a particular point was raised about impacts on rural areas. There probably ought to have been more of that.

I'd like to talk first about the new poverty data for 1987 that was just published on August 31 by the Census Bureau, and about some of the current figures and trends concerning rural poverty. Building on that, I would then like briefly to discuss several potential policy options in the poverty policy area, with a few words about the new welfare reform bill. I should say in summary that I think the new bill is likely to have only modest effects on rural poverty.

As many of you probably know, the overall poverty rate in 1987 for the country as a whole was 13.5 percent, and while poverty declined for several years after the current economic recovery began, there was not a further decline in 1987. Usually the poverty rate follows the unemployment rate. The unemployment rate in 1987 was about at the same level as in 1978. The poverty rate, however, was substantially higher in 1987 than in 1978; in fact, it was higher than in any year in the 1970's, including the 1975 recession.

My suspicion is that if you conducted a national poll and asked people where they thought the growth in poverty had occurred, most Americans would tell you that it occurred in the inner city, primarily among blacks and particularly among black women having children out of wedlock. My guess would be that our hypothetical poll would not find many people placing emphasis on increases in poverty in rural America.

Yet if you look at the Census data on the metropolitan and non-metropolitan poverty rates, you find that the nonmetropolitan poverty rate rose from 13.5 percent in 1978 to 16.9 percent in 1987. It's true that the nonmetropolitan poverty rates for these 2 years are not exactly comparable because the definition of "nonmetropolitan" changed during the period. However, most of the increase in poverty occurred before the definition was changed. While you may not be able to say that the rise in the nonmetro poverty rate was exactly 3.4 percentage points (because of the definition change), the Census data clearly indicate that a substantial increase in nonmetro poverty occurred—and that the poverty rate rose about as much in nonmetro America during this period as it rose in metro areas.

Let's move from that to a second point of comparison. Let's compare poverty rates for various population groups—and in doing these comparisons, let's examine not just the rates for metro and

¹ Director, Center on Budget and Policy Priorities.

nonmetro areas (because, after all, the metro areas include the suburbs), but also the rates for the central cities (as compared to the rates for the nonmetro areas).

Most people would probably assume that poverty rates are much higher in the central cities than in rural America. Yet if you look at white Americans, you find that the white poverty rate for the nonmetro U.S. is just about the same as the white rate for the nation's central cities. The poverty rate for whites in 1987 was 13.7 percent in the nonmetro areas and 13.8 percent in the cities. For minorities, poverty rates are *higher* in the nonmetro areas than in the central cities. For blacks, the poverty rate in the central cities was 33.3 percent in 1987, while in the nonmetro U.S. it was 44.1 percent. There is a similar disparity for Hispanics.

Thus for all major racial/ethnic groups, the poverty rate was as high or higher in the nonmetro U.S. than in the central cities. (The reason that the overall poverty rate was somewhat higher in central cities than in the nonmetro U.S. is that the central cities are more black than the rural areas are.)

If you look at groups like children—and particularly at black children—you find the same pattern. The poverty rate for black children in the central cities was 46 percent in 1987. But the poverty rate for black children in the nonmetro U.S. was 57 percent last year.

For black children under age six in female-headed families—and these figures are for 1986, since these kinds of “crosscuts” aren’t published yet for 1987—the poverty rate was 76 percent in the central cities, but 83 percent in the nonmetro areas.

Large differences show up among the elderly as well. Elderly poverty rates are considerably higher in the nonmetro areas than in the central cities. Looking again at 1986 data, some 27 percent of black elderly people in the central cities were poor, while 48 percent in the nonmetro U.S. were poor. If you look at black elderly people living alone or with people to whom they are not related, the poverty rate in the central cities was 43 percent, while in the nonmetro areas it was 78 percent.

Finally, there has been increasing attention over the past year to rising poverty rates among young families. Increases in poverty rates for young families have been dramatically sharper in the nonmetro areas than in the metro areas.

For a family headed by someone aged 15–24, the poverty rate in the nonmetro U.S. was 17 percent in 1978. By 1987, however, the poverty rate for this group had doubled, reaching 36 percent.

For a family headed by someone aged 25–34, the nonmetro poverty rate also climbed substantially during this same period, rising from 11 percent to 19 percent.

These large increases in nonmetro poverty among young families occurred among blacks and whites alike; for blacks, the poverty rate for families headed by someone aged 25–34 in nonmetro areas reached 58 percent in 1987. The rate for a family headed by someone aged 15–24 was 77 percent.

The data that I’ve been citing are all annual poverty data. The next speaker is going to talk about longitudinal data. But let me note briefly here that long-term poverty (or “persistent poverty”) is more disproportionately rural than is annual poverty, so that the

picture I've been presenting of nonmetro poverty rates exceeding metro poverty rates for many groups would be accentuated further if you compared urban and rural poverty rates on a long-term basis.

I'd like now to discuss a different type of rural/urban comparison: how do the rural poor differ from the urban poor?

The rural poor are more likely than the urban poor to live in two-parent families (rather than single-parent families). They are more likely to work. They are more likely to be elderly, and they are more likely to be white.

Fewer than half of the poor in the metro areas live in two-parent families. By contrast, nearly two-thirds of the poor in the nonmetro areas live in two-parent families. Similarly, more than two-thirds of the nonmetro poor have at least one worker in the family, and about one-fourth have two workers or more. In the metro areas, however, only about half of the poor families have even one worker. In addition, a much larger percentage of the nonmetro poor than of the metro poor are elderly.

From a political perspective, this leads to an interesting observation. If you think of the groups that the public and politicians often think of as the "deserving poor," it is those who work, those who are elderly, and those who are in two-parent families to a greater degree than those in a single-parent families. Those groups sometimes thought of as the "deserving poor" (a characterization I don't particularly like, myself) thus comprise a very large majority of the rural poor population.

On the surface, that might seem to suggest a basis for more sympathy among rural policymakers towards programs and policies to help this group. Yet it is difficult to find evidence of that. Those of us who work on these issues in Washington know that support for these programs is usually greater from legislators from urban than from rural areas.

Looking at specific policies aimed at the poverty population, it is interesting to examine some of the options in poverty policy that are available to States. Up until now, States have had the option to cover two-parent families in AFDC or to restrict program benefits to single-parent families. Currently about 28 States cover two-parent families, while about 23 States do not. (The District of Columbia is included here as a State.)

States also have options in the major cash assistance program for the elderly and disabled poor, the SSI program. In this program, the basic Federal benefit level equals about three-fourths of the poverty line. States are allowed to supplement this benefit to bring their low-income elderly residents closer to the poverty line. Twenty-seven States do; 24 States do not.

Our staff ranked all of the States according to the percentage of each State's population that is in metro or nonmetro areas. We ranked the States from one to 50, from the most urban to the most rural State. We then looked at the 15 States that were the most urban and the 15 States that were the most rural, and we examined what these States had done in these two areas where States have policy options. Are rural States more or less likely than urban States to cover two-parent families under AFDC or to provide SSI supplements?

Both of these are policy options that are of disproportionate benefit to the rural poor. Since poor rural families are more likely than poor urban families to have both parents present, covering two-parent families under AFDC disproportionately helps the rural poor.

Similarly, since the elderly are a larger percentage of the poor in rural areas than in urban areas, supplementing SSI benefit levels to bring them closer to the poverty line also disproportionately benefits the rural poor.

Nevertheless, it is the urban States that have adopted these policy options to a greater degree than the rural States. Nine of the fifteen most rural States deny AFDC to two-parent families, while 11 of the 15 most urban states provide AFDC to two-parent families. Only 7 of the 15 most rural States supplement the SSI benefits. Twelve of the fifteen most urban States supplement these benefits.

State coverage of two-parent families in AFDC will change somewhat as a result of the new welfare reform bill. The bill requires, starting in fiscal year 1991, that all States to cover two-parent families under AFDC. However, the 23 States not currently covering these families will be allowed to limit coverage for these families to 6 months out of the year, so that there still will be a distinction between two-parent and single parent families in some States.

It will be up to these States to determine whether to provide the full 12 months of coverage or whether to limit it to fewer than 12 months (presumably to 6 months). Thus there still will be a major choice for States regarding coverage of poor two-parent families. It will be interesting to see what the more rural States do. (The welfare reform bill does provide that if a State elects to provide only 6 months of benefits to the two-parent families under AFDC, the State must still provide a full 12 months of Medicaid coverage to two-parent families that otherwise meet the State's AFDC eligibility criteria.)

Speaking of the welfare reform bill, I would not hold out great hope that its work and employment and training provisions are going to make a large difference in rural areas.

I should note that there is one provision in the bill that many analysts regard as misguided. This is a provision on which the White House insisted that requires each State eventually to enroll 75 percent of the State's two-parent AFDC families in workfare programs. This provision effectively denies States the option to use most other types of employment and training treatments (other than workfare) for most of their two-parent families.

Research has found that welfare-to-work programs generally have little impact on two-parent families. This is because these programs have little impact on persons with considerable prior work experience; such people tend to do well in finding jobs on their own, regardless of whether they participate in a welfare-to-work program. Under Federal AFDC rules, two-parent families are ineligible for AFDC unless they have a specified amount of prior work experience (a requirement that does not extend to single-parent families). It should not be surprising, then, that welfare-to-work programs tend to produce greater results in terms of increasing employment and earnings among single-parent families.

Unfortunately, requiring such high participation rates in welfare employment programs by two-parent families (as the welfare reform bill does) is likely, in States with limited resources, to have the effect of diverting some resources away from employment and training programs for single-parent families with less skills and work experience. Such resources will instead be used for workfare programs for adults in two-parent families, even though such adults generally stay on the welfare rolls for a short period of time and really do not need employment and training to the same degree.

Enough on welfare reform. For what I think needs greater attention now—and promises greater returns for alleviating rural poverty—are new policy initiatives that operate outside the welfare system. Since a large proportion of the rural nonelderly poor work during the year, a strategy to “make work pay,” as David Ellwood of Harvard calls it in his new book, is likely to have more substantial results among the rural poor.

If we were to establish a national goal that if a parent works full-time year round, the parent and his or her children should not fall into poverty, achieving this goal could have a major impact on the rural poor. Moreover, attaining this goal is neither very complicated nor especially expensive. If you combine a restoration of the minimum wage to its average level of the 1960's and 1970's (in real terms) with an expansion of the earned income tax credit for the working poor, you can get most families with children with a full-time worker close to or above the poverty line.

In the 1960's and 1970's, full-time year-round work at the minimum wage brought a family of three to an average of 104 percent of the poverty line for a family of three. Now full-time minimum wage earnings equal only about 75 percent of the poverty line for a family of three. If you restored the minimum wage to its historic level, you would bring the families of three with a full-time worker to the poverty line.

Then if you adjusted the earned income credit so that it increases as family size grows, you could raise most families of more than three with a full-time worker close to or above the poverty line. (The earned income credit is “refundable,” which means that if a family's credit exceeds its Federal income tax liability, the IRS sends the family a check for the difference.)

Since there are so many working poor families in rural areas, this strategy could make a significant difference there.

The approach of combining an increase in the minimum wage with adjustments (for family size) in the earned income credit can benefit many low-income working families. But to truly “make work pay,” two other steps are needed as well—sufficient health care and child care coverage for working poor families. Otherwise, a working family's disposable income can still fall well below the poverty line, after the family pays large health care and child care bills. Since 1984, Congress has taken some steps to cover more of the working poor under Medicaid. Legislative changes were enacted in 1984, 1986, 1987, and 1988 that are gradually expanding Medicaid to more young children and pregnant women in working poor families (and in other poor families not on welfare). If we continue this process of broadening Medicaid to cover more of the

working poor, we can make progress in assisting working poor families in rural areas.

In the child care area, there are a number of options that have been proposed recently to assist low-income working families. Some options stress tax credits, while others emphasize direct Federal support for day care. It appears likely that some action will be taken in this area during the next administration.

Finally, there are several additional steps that could be taken on the program benefits side that could be significant in rural areas, although these proposals may not be politically feasible in the short term.

Rural States tend to be poorer than urban States and to lack the money either to pay as high-benefit levels in AFDC as urban States do or to supplement the Federal benefit levels in SSI to the same extent. However, if we raised the Federal SSI benefit level to the poverty line, that step would not impose any fiscal burdens on States. Such a step would disproportionately benefit the rural poor, because the elderly comprise a larger share of the rural poor than of the urban poor (and also because rural States constitute a disproportionate share of the States not currently providing any SSI supplements).

I believe that the Urban Institute has conducted a study of options that could be used to finance an increase in SSI benefits to the poverty line.

Finally, let me also mention the forlorn dream of welfare reformers for 20 years: to make the benefit structure of the AFDC program more like that of the SSI program, and to enact what President Nixon proposed nearly two decades ago, a Federal minimum benefit level for AFDC.

If a Federal minimum benefit level were established, the States in which benefit levels would be raised would disproportionately be Southern and rural States. The establishment of a minimum benefit level would have to be accompanied by some fiscal relief to help those States pay for the higher benefits.

My more general point, however, is that options can be designed which could make a significant difference in addressing rural poverty and which do not carry a massive price tag. The policy options that probably have the best chance of approval in the next few years are, I think, the "make work pay" options to assist working poor families by raising the minimum wage, enlarging the earned income tax credit, continuing the incremental expansion of health care coverage to the working poor, and instituting some new child care initiatives. I believe there is a chance for action on all of these items under the next Administration.

TWO TYPES OF POVERTY, TWO TYPES OF POLICY ¹

By Robert A. Hoppe ²

INTRODUCTION

The rural, or nonmetro,³ poor can be divided into two groups: the persistent poor and the temporary poor. The persistent poor remain in poverty for years, but the temporary poor experience poverty for shorter periods of time. Differences in the duration of poverty are so fundamental that different kinds of policies are appropriate.

I begin this presentation with a discussion of the causes of persistent and temporary poverty. Next, I examine key characteristics of the temporary and persistent poor in nonmetro areas. Then, I outline policies that are relevant for the two types of poor, given their different characteristics. I also discuss the applicability of these policies in communities where the two types of poor are concentrated. Finally, I examine the roles of the public and private sectors in meeting the needs of the two types of poor and communities where they live.

THE CAUSES

Previous research has shown that the persistent poor have characteristics commonly attributed to the poor in general (Ross and Morrissey, 1986, p. 7; 1987, p. 7). For example, they tend to be members of minority groups, have disabilities, or live in female-headed families. The reasons why these groups of people are more prone to poverty are complex.

Most theoretical discussions of poverty focus on one of two perspectives (Ross and Morrissey, 1986, p. 6-8; Deavers et al., 1988). Poverty is generally viewed as a result of either the characteristics of individual people or as a result of problems with the economy or society. According to the first perspective, the poor do not take advantage of opportunities to escape poverty because of a lack of initiative or human capital. The second perspective focuses on economic and societal problems, such as discrimination, unemployment, or the lack of access to education.

Both causes undoubtedly contribute to poverty in general and persistent poverty in particular. The immediate causes of tempo-

¹ This speech draws heavily from Ross and Morrissey (1986 and 1987) and from Deavers et al. (1988).

² Economist, Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture.

³ Rural and nonmetro are used interchangeably throughout this paper. Generally speaking, a metropolitan (metro) area is a county or group of counties containing an urban population concentration of 50,000 or more (Beale, 1984). Other counties are classified as nonmetropolitan (non-metro).

rary poverty are easier to understand. Many of the temporary poor became poor due to major events in their lives that interrupt their income, such as divorce, the death of a spouse, unemployment, or sickness (Ross and Morrissey, 1986, pp. 7-8; 1987, p. 7).

WHO ARE THEY?

The Economic Research Service (ERS) used data from the University of Michigan's Panel Study of Income Dynamics (PSID) to explore the extent of long-term poverty in nonmetro areas (Ross and Morrissey, 1986 and 1987). People were classified as persistently poor if their family income was below the poverty level 3 or more years during the 5 years from 1978 to 1982. People were classified as temporarily poor if their family income was below the poverty level for only 1 or 2 years during the 1978-82 period. The non-poor had family income above the poverty level all 5 years.

Both temporary poverty and persistent poverty were more common in nonmetro areas. (See table 1.) Fourteen percent of the people in the nonmetro sample were temporarily poor during the 5-year period, compared with only 9.0 percent in metro areas. Similarly, the persistent poor made up 8.4 percent of the nonmetro sample but only 5.1 percent of the metro sample. However, the share of the total poor who were persistent poor was about the same—slightly over one-third—in both metro and nonmetro areas.

TABLE 1.—PERSISTENT AND TEMPORARY POOR BY RESIDENCE AND POVERTY STATUS

Item	Residence		
	All areas	Metro	Nonmetro
Poverty status:			
Nonpoor ¹	83.9	85.9	77.6
Persistent poor ²	5.9	5.1	8.4
Temporary poor ³	10.2	9.0	14.0
Total	100.0	100.0	100.0
Share of poor who were:			
Persistent poor ²	36.6	36.2	37.4
Temporary poor ³	63.4	63.8	62.6
Total	100.0	100.0	100.0

¹ Lived in families with income above the poverty level for all 5 years in the 1978-82 period.

² Lived in families with income below the poverty level in 3 or more of the 5 years in the 1978-82 period.

³ Lived in families with income below the poverty level for 1 or 2 of the 5 years in the 1978-82 period.

Source: PSID data from Ross and Morrissey (1986).

The share of the poor in the two categories may not be constant. One would expect recessions to increase temporary poverty more than persistent poverty. Because the 1978-82 period included two recessions (January 1980 to July 1980 and July 1981 to November 1982), the temporary poor's 63 percent share of the total U.S. poor might be higher than usual.

The characteristics of the persistent poor and the temporary poor in nonmetro areas differed. (See table 2.) For example, the persistent poor were more likely to be elderly, nonwhite, or members of female-headed families than the temporary poor. They were also much less likely than the temporary poor to have completed high

school. The temporary poor, in contrast, were more like the nonpoor with regard to these characteristics. The temporary poor experienced more family disruptions, such as divorce or the death of a spouse, than either the persistent poor or the nonpoor.

TABLE 2.—SELECTED CHARACTERISTICS OF NONMETRO PEOPLE BY POVERTY STATUS

(Percent of people)

Item	Poverty status		
	Persistent poor ¹	Temporary poor ²	Nonpoor ³
At least 65 years old.....	30.8	13.7	13.0
Nonwhite.....	42.8	17.3	7.2
Living in a female-headed family.....	51.4	22.5	12.6
High school graduate ⁴	23.1	56.6	74.6
Living in families with at least 1 disruption in the 5-year period ⁵	21.4	28.4	15.6
Living in the South.....	65.9	44.7	44.4

¹ Lived in families with income below the poverty level in 3 or more of the 5 years in the 1978-82 period.

² Lived in families with income below the poverty level in 1 or 2 of the 5 years in the 1978-82 period.

³ Lived in families with income above the poverty level for all 5 years in the 1978-82 period.

⁴ Persons 25 years old or older.

⁵ Death of a spouse or divorce.

Source: PSID data from Ross Morrissey (1986).

The temporary poor were more attached to the labor force than the persistent poor in nonmetro areas. (See table 3.) Nearly three-quarters of temporarily poor household heads were in the labor force in 1981, compared with less than half of the persistently poor household heads. Temporarily poor female household heads were actually more likely to be in the labor force than their nonpoor counterparts. And, only one-fifth of the temporary poor lived in families with no workers, compared with about half of the persistent poor. Again, the temporary poor were more like the nonpoor with respect to number of workers. Unemployment, however, was more prevalent among temporarily poor household heads than among the other groups, which helps explain why they fell into poverty.

TABLE 3.—SELECTED EMPLOYMENT CHARACTERISTICS OF NONMETRO PEOPLE BY POVERTY STATUS, 1981

Item	Poverty status		
	Persistent poor ¹	Temporary poor ²	Nonpoor ³
PERCENT OF PEOPLE			
Lived in families with:			
0 workers.....	50.9	20.7	12.4
1 worker.....	33.3	42.5	57.3
2 or more workers.....	15.8	36.8	30.3
PERCENT OF HOUSEHOLD HEADS			
Household head in the labor force.....	45.1	73.9	75.4
Male.....	50.6	78.1	81.3
Female.....	41.8	66.0	53.1
Household head experienced unemployment: ⁴			
Any unemployment.....	17.9	30.7	17.3
160 hours or more.....	17.8	28.8	14.8

- ¹ Lived in families with income below the poverty level in 3 or more of the 5 years in the 1978-82 period.
² Lived in families with income below the poverty level in 1 or 2 of the 5 years in the 1978-82 period.
³ Lived in families with income above the poverty level for all 5 years in the 1978-82 period.
⁴ Household head in the labor force.

Source: PSID data from Ross and Morrissey (1986).

The types of jobs held by the two types of poor also differed (Ross and Morrissey, 1987, pp. 9-10). Over half of the employed persistently poor male household heads reported farmer, farm laborer, or farm manager as their main occupation, while over half of temporarily poor and nonpoor male heads were concentrated in blue collar occupations. Employed temporarily poor female heads were more likely to be blue-collar workers than their nonpoor or persistently poor counterparts. Persistently poor female heads overwhelmingly worked in service occupations.

Although the discussion above was based on definitions involving years of poverty, poverty may last less than a year (Hoppe, 1988). A small number of months in poverty may not be a severe problem, if it results from anticipated seasonal layoffs for which people can compensate through saving. On the other hand, only a month or two of unanticipated poverty may impose a hardship on people who normally are not far above the poverty level.

Periods of poverty less than a year long are much more common in nonmetro than metro areas. (See table 4.) Over 15 percent of the nonmetro population was poor from 4 to 11 months, compared with only 10 percent of the metro population. Differences between the 4 to 11 month poor and the 12 month poor are similar to the differences between the temporary and persistent poor. The 12-month poor are more likely to be elderly, disabled, or members of female-headed families, while the 4 to 11 month poor are more likely to be white and members of married-couple families (Hoppe, 1988).

TABLE 4.—MONTHS OF POVERTY BY RESIDENCE, 1983-84 ¹

[Percent of people]

Months of poverty ²	Residence		
	All areas	Metro	Nonmetro
0.....	73.2	75.1	67.6
1 through 3.....	7.9	7.8	8.3
4 through 11.....	11.5	10.2	15.4
12.....	7.4	6.9	8.7
Total.....	100.0	100.0	100.0

¹ Data are from the Survey of Income and Program Participation (SIPP) 1983-84 Longitudinal Research File. The sample was divided into four groups, and each group's data was for a different 12-month period in 1983 and 1984. The four periods began in June 1983, July 1983, August 1983, or September 1983. The varying periods result from a complex sample design and a staggered data collection procedure. The SIPP research file is considered experimental or preliminary. For more information, see Hoppe (1988).

² A person's family income is compared to his family's poverty level each month. The person is classified as poor in a given month if income is less than the poverty level for that month. For more information, see Hoppe (1988).

Source: U.S. Bureau of the Census (1986).

Before going any further, a warning is in order. Although the two groups of poor, in aggregate, have different characteristics, some persistent poor have characteristics more like the typical temporary poor, while some temporary poor have characteristics more like the typical persistent poor.

WHERE ARE THEY?

Geographically pinpointing where the persistent and temporary poor are concentrated is difficult, mainly because of the way data sets are organized. Longitudinal data, or data that allow us to follow people or families through time, generally do not provide information at the county level. Similarly, county level data sets do not allow us to follow particular individuals or families through time. A data set that would allow performing both tasks would be prohibitively large and expensive to build and to use.

Determining where the two types of nonmetro poor live may require some creative approaches. For example, information about the county where each respondent lives could be added to a longitudinal data file. The county data would be useful in providing information about the existence of the two types of poverty in nonmetro counties with particular characteristics, such as economic dependence on farming or manufacturing. If this approach is to be feasible, however, the longitudinal sample must be fairly large, probably larger than any existing today.

Different data sets could be linked together to provide more localized estimates of persistent or temporary poverty. At this symposium, Glenn Nelson suggests using a model linking data from the Survey of Income and Program Participation and the Current Population Survey to make "synthetic estimates" for relatively small areas. Synthetic estimates may also be useful in locating persistent and temporary poverty. This approach is not discussed any further here because the topic is covered in detail by Nelson (1988).

A while will pass before either of these approaches provides information about the location of the persistent or temporary poor. In the meantime, the location of the two types of poor in nonmetro areas can be inferred from existing data. The PSID does provide some regional information. For example, it indicates that 66 percent of the persistent rural poor live in the South, compared with only 45 percent of the temporary poor and 44 percent of the nonpoor. (See table 1.) In addition, one can determine more exactly where the two types of poor are located by examining county data that show the location of specific groups of people who are prone to either temporary or persistent poverty.

For example, a recent ERS study (Hoppe, 1985) suggests more precisely where in the South many persistent poor are located. The study identified 231 counties that have consistently had a low per capita income since the 1950's. All but 18 of these economically depressed counties were located in the South, especially in the Mississippi Delta, the Ozark-Quachita Plateau, Appalachia, and the Black Belt.

These low-income counties contained groups that are likely to include the persistent poor: nonwhites, the disabled, female-headed families, and the undereducated. Note, however, that not all these types of people comprise a large share of the population in each low-income county. For example, a large share of the population in Searcy County, Arkansas, reported a work-limiting health disability, but less than 1 percent of the county's population was nonwhite (Hoppe, 1985, p. 4; U.S. Census Bureau, 1983). Also note that not all persistent poor are concentrated in depressed areas. Many

are persistently poor due to personal characteristics independent of local economic conditions.

Areas with concentrations of temporary poverty may be more difficult to identify, simply because this poverty is less stable than persistent poverty. By the time concentrations of temporary poverty are identified, they may have begun to disappear. However, one logical place to look would be counties with high unemployment during local or national business downturns.

POLICY OPTIONS

Although most programs can help both types of poor, some may be more useful in helping one type than the other (Ross and Morrissey, 1987). Policies that are the most relevant for each type of poor can now be examined. We will later discuss of the applicability of these policies in different geographic areas that have concentrations of either type of poor.

PERSISTENT POVERTY

As shown earlier, the rural persistent poor tend to be elderly, nonwhite, or members of female-headed families. Among these groups, our nation has had the greatest success in fighting poverty among the elderly (Deavers et al., 1988). The improvements in reducing poverty among the elderly can largely be explained by changes in two programs serving them: Social Security and Supplemental Security Income. Because the elderly are generally not expected to work, further efforts to reduce poverty among them will depend on changes in these programs. The same conclusion can be drawn for the persistent poor who are disabled and unable to work.

Persistent poverty among nonwhites or female-headed families has no easy solution (Deavers et al., 1988). An end to discrimination would ultimately help both groups. Efforts to ensure civil rights are critical.

Efforts to deal with persistent poverty must address some additional problems faced by the persistent poor, including family stability and employability (Ross and Morrissey, 1987, p. 10). In particular, Aid to Families With Dependent Children (AFDC) should be examined, for it is the main program to help people in female-headed families and undoubtedly influences how they act. Charles Murray (1984) argues that AFDC, along with other welfare programs, has inadvertently perpetuated poverty and encouraged the breakup of families by providing income for nonworking women without a husband.

Congress has recently taken action to restore or add work incentives to AFDC. The restructured AFDC program established by the new Family Support Act is likely to promote education, work, and training more than the existing AFDC program and will also increase child support collections from absent parents (Rich, 1988). However, if female-family heads are to work, adequate day care for their children must be provided (Ross and Morrissey, 1987, p. 10).

Changes in AFDC, however, may have a limited impact on nonmetro poverty as a whole. Less than one-fifth of nonmetro poor families received AFDC in 1986 (U.S. Bureau of the Census, 1988, p. 73). Also, some analysts argue that a lack of jobs for the poor,

not the incentives in welfare programs, is the real problem.⁴ On the other hand, the new act may help more nonmetro poor by extending assistance to families where the father is present, but unemployed. Currently, about half the States do not provide AFDC for families where both parents are present, even if the father is unemployed (Rich, 1988). States without the unemployed parent provision contain a large share of the nonmetro poor, who are heavily concentrated in married-couple families (Getz and Hoppe, 1983, p. 36).

Although people on farms form a relatively small portion of the total nonmetro poor population (Deavers et al., 1988), over half of the male heads of persistently poor households are farmers, farm laborers, or farm managers. Policies focused on limited-resource farmers or farm workers are relevant for some persistent poor people.⁵ Policymakers, however, must overcome the commonly held belief that farm policy alone is an effective antipoverty policy for nonmetro areas as a whole.

TEMPORARY POVERTY

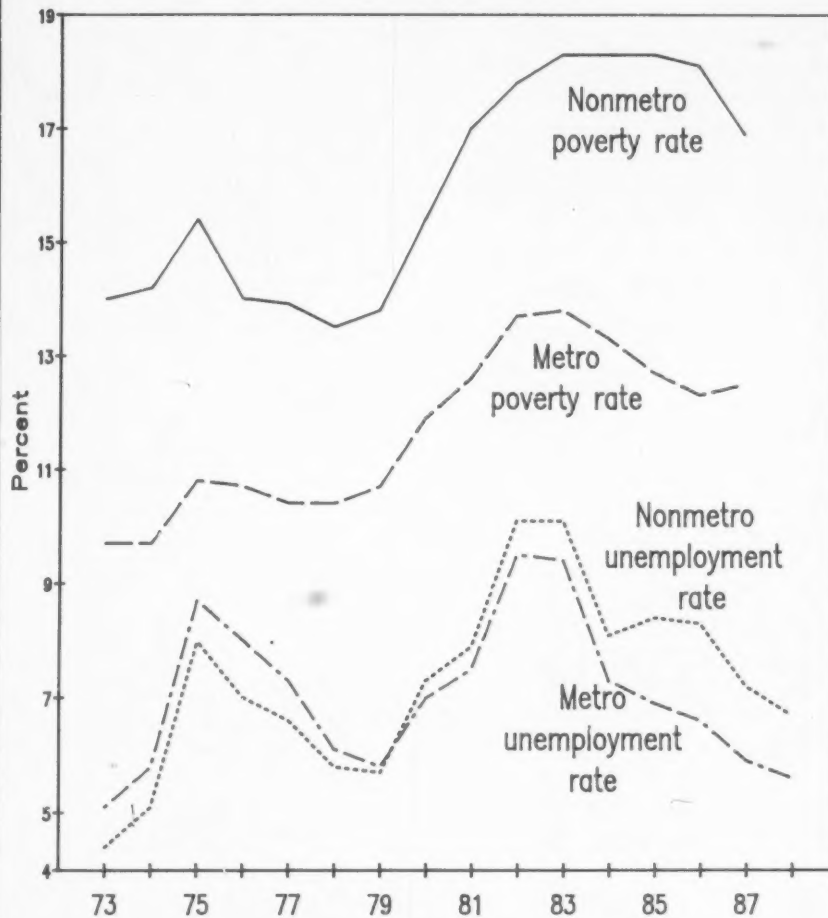
For those who experience temporary poverty from economic downturns or loss of a job, public programs—such as unemployment insurance—may be necessary for a short time (Deavers et al., 1988). Those in temporary poverty caused by sickness, divorce, or the death of a spouse may also need short-term income assistance from transfer programs. In the long run, many temporary poor could benefit from job training or retraining programs to help them find work in new industries (Ross and Morrissey, 1987, p. 10).

Much temporary poverty can obviously be eliminated by a strong economy. Unfortunately, relying on the labor market to alleviate poverty has recently been less effective in nonmetro areas than in metro areas. The recessions beginning this decade affected the nonmetro economy more seriously than the metro economy (Deavers et al., 1987). Unemployment rates reached higher levels in nonmetro areas, and the nonmetro recovery has been slower. (See figure 1.) Nonmetro areas that depend on mining, manufacturing, or farming were particularly hard hit (Ross and Morrissey, 1987, p. 10).

⁴ For more information about the debate on the effects of welfare programs, see Wilson (1987, Chapter 1, pp. 3-19).

⁵ For a discussion of policies to help low-resource farmers, see Hoppe and Bluestone (1987). Although this article addresses the problems of black farmers, it is also relevant for limited-resource farmers in general.

Fig. 1.--Unemployment and poverty rates by residence



Source: Current Population Survey. ('88 unemployment is for 1/88 to 6/88.)

In part, the economic problems of nonmetro areas in the 1980's have stemmed inadvertently from past successes. During the 1960's and 1970's, nonmetro areas competed successfully with metro areas in attracting and creating new jobs in manufacturing. This transformation of rural America presents two challenges to nonmetro areas.

First, rural manufacturing employment is heavily concentrated in low-wage industries (Bloomquist, 1987). Thus, overseas competition in low-wage manufacturing can have a disproportionately negative impact on rural areas. Second, individual rural areas do not tend to be economically diversified. As a result, serious unemployment problems in nonmetro areas in the early 1980's were heavily concentrated in the manufacturing counties of the South and East (Bluestone and Myers, 1987). The situation was similar to the geographic concentration of farm financial stress, but more people were affected by the manufacturing recession (Deavers et al., 1988).

Some indicators, however, suggest better economic conditions in nonmetro areas in the near future. The dollar fell 40 percent against the currencies of industrial countries between December 1984 and May 1988 (U.S. Federal Reserve System, 1985 and 1988), which should help nonmetro manufacturers and farmers compete abroad. Financial conditions in farming improved recently, at least before the drought struck.⁶ And, as shown in figure 1, the nonmetro unemployment rate has fallen recently. Currently, the unemployment rate is lower in nonmetro manufacturing counties than in nonmetro areas as a whole (McGranahan, 1988).

Nevertheless, we cannot rely on these hopeful trends alone to reduce temporary poverty in nonmetro areas (Deavers et al., 1988). Even if they do reduce nonmetro poverty by themselves, the nonmetro poverty rate will climb again during the next recession or when the dollar strengthens. Also, the dollar remains strong against the currencies of Southeast Asian countries that compete with the nonmetro U.S. in low-wage manufacturing (McGranahan, 1988).

Somehow, nonmetro economies must be strengthened to reduce future temporary poverty and to prevent temporary poverty from turning into the persistent poverty existing in depressed areas. Strengthening nonmetro economies is a complex task that involves macroeconomic policy and foreign trade, as well as more traditional rural development programs involving efforts to diversify local economies, expand business activity, or improve local human capital. Efforts to improve human capital could include job training as well as attempts to improve education.

GEOGRAPHIC APPLICATION

Geographically targeting some of the programs and policies discussed above makes sense. For example, a State may want to emphasize job training and relocation efforts where factories have closed recently and emphasize programs for limited-resource farm-

⁶ According to Hanson et al. (1988): "... it is apparent that agriculture's recent financial improvement will lessen the financial repercussions of the 1988 drought. In particular, cash-flow and balance-sheet gains that accrued in 1987 provide farmers more of a financial cushion than existed in 1985-86."

ers in counties with concentrations of those farmers. Focusing programs on areas where the clientele is concentrated appeals to our desire for efficiency. Nevertheless, a broad range of antipoverty measures serving both the temporary and the persistent poor should be available wherever poverty of any type is concentrated. Four reasons support this assertion.

First, the persistent and temporary poor are not always neatly separated geographically. Areas with concentrations of the temporary poor are also likely to have some long-term poor, while areas with concentrations of the persistent poor are likely to contain some temporary poor. Although the poor in a given area may be predominantly of one type, measures to help both sets of people must be available. Actual use of the measures would vary from place to place, depending on which type of poverty predominates.

Second, the same measures may help both types of poor people (Deavers et al, 1988; Poss and Morrissey, 1987). For example, AFDC can help a female family head who has been poor for most of her life as well as a recently divorced mother who only needs some cash for a few months before she finds a job. As another example, job training, educational programs, and local economic development can help the persistent poor as well as recently displaced workers.

Third, in individual cases it may be difficult to tell whether current poverty will be temporary or persistent (Deavers et. al, 1988). Thus, the choice of policies to apply in individual cases may not always be obvious. Having an array of policies available for both persistent and temporary poverty makes finding the appropriate mix of measures more likely.

Fourth, pinpointing concentrations of one type of temporary poor, that caused by family disruption, is difficult. Family disruptions are endemic in our society today, even in rural areas, and the poverty that create exists all over. Thus, it is desirable to universally provide some remedies for temporary poverty.

WHOSE ROLE?

All levels of government, private nonprofit organizations, and the economy have roles in reducing both persistent and temporary poverty. The Federal Government has a role in determining general macroeconomic policy, which is important in reducing or preventing temporary poverty. It also has an important role in helping pay for antipoverty programs, particularly for financially pressed States with large numbers of either the temporary or persistent poor. Funding programs such as SSI and AFDC is particularly important to the persistent poor.

State and local governments have the responsibility to administer programs for the poor at the local level, and share funding responsibility with the Federal Government. State and local governments also are better able to design rural development programs to fill unique local needs.

Nonprofit institutions in this nation also have an important role in alleviating persistent and temporary poverty. They may be particularly useful in filling in gaps between formal government programs. For example, they can provide food at the end of the month

when food stamps run out, or provide low-cost child care for working mothers.

The private sector already provides a substantial amount of services of value to the poor. The Social Security Administration estimates that private expenditures for social welfare ⁷ amounted to nearly \$38 billion in 1986 (Kerns and Glanz, 1988, pp. 4-5). However, some of these expenditures help people other than the poor.

Finally, the importance of the general economy in reducing, or preventing, temporary poverty in nonmetro areas is demonstrated in figure 1. Changes in unemployment are reflected by similar changes in poverty in both metro and nonmetro areas. Nonmetro poverty, however, appears to be more sensitive to unemployment than metro poverty. About 69 percent of the variation in the nonmetro poverty line in figure 1 can be statistically explained by variations in the corresponding unemployment rate, compared with only 34 percent of the variation in the metro poverty line.⁸ Any measures that increase national or regional prosperity can be effective in reducing temporary poverty.

A FINAL NOTE

This paper has stressed strategies that encourage the poor to work, such as establishing work incentives for AFDC recipients and providing job training. These measures may be helpful in moving some of the temporary and persistent poor out of poverty, particularly those who can work.

Employment strategies, however, are limited by the overall performance of the macroeconomy and local economic conditions. By themselves, job training, skill enhancement, work requirements, and related measures do not generate a single new job.

Neither are these strategies especially effective ways of reaching the poor who cannot work, such as the disabled and elderly persistent poor (Deavers et al., 1988). Employment strategies may also have only an indirect effect on the large share of the nonmetro poor who are children. Many of the nonmetro poor do not belong to groups who can reasonably be expected to work. The most effective way to reach these people is through income transfers. Solutions involving employment alone are not a panacea: they must be balanced with transfer programs, with macroeconomic policy, and with local economic development.

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⁷ Private social welfare expenditures include: individual and family social services (such as family counseling, emergency and disaster services, and child day care centers); residential care (such as group foster homes, halfway homes, and shelters for the homeless); recreation and group work (such as YMCA, YWCA, and Boy and Girl Scouts); civic, social and fraternal organizations; and job training and vocational rehabilitation (such as sheltered workshops, vocational rehabilitation agencies, and skill training centers). For more information, see Kerns and Glanz (1988, p. 5).

⁸ The percentages are R²'s from two simple regressions. This analysis is simplistic, involving only two variables and 15 observations (for 1973 through 1987). However, the results make sense intuitively. The nonmetro poor include more workers (Deavers et al., 1988), who may leave poverty when jobs are plentiful and employers pay more to attract employees.

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APPENDIX

NONMETRO POVERTY: TRENDS AND TECHNICALITIES ¹

By Robert A. Hoppe

THE TRENDS

Considerable progress was made against nonmetro ² poverty during the late 1960's and early 1970's. The official nonmetro poverty rate from the Current Population Survey (CPS) declined from 20.2 percent in 1967 to 13.5 percent in 1978, interrupted by a noticeable increase during the 1973-75 recession. (See figure 1.) Poverty rates in central cities, other metro areas, and metro areas as a whole were more stable during the same period, fluctuating within fairly narrow ranges.

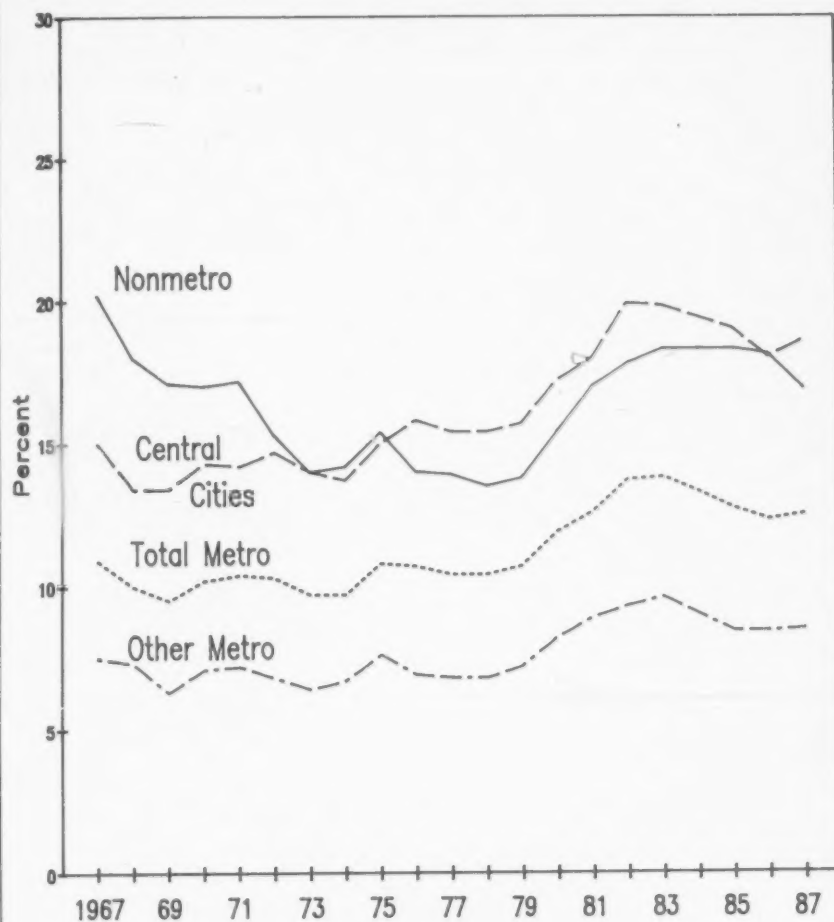
Not only did the nonmetro poverty rate decline in the early 1970's, but the gap between nonmetro and central city poverty rates also closed. By the late 1970's, however, the central city poverty rate exceeded the nonmetro poverty rate, unlike the late 1960's when the nonmetro poverty rate was higher.

Some of the gains against nonmetro poverty were reversed in the 1980's. Poverty increased sharply after 1979 in both metro and nonmetro areas. By 1983, the official poverty rate reached 13.8 percent in metro areas as a whole, 19.8 percent in central cities, 9.6 percent in other metro areas, and 18.3 percent in nonmetro areas. After 1983, the metro poverty rates declined somewhat, but the nonmetro poverty rate stayed at about 18 percent until falling to 16.9 percent in 1987. The nonmetro and central city poverty rates converged again in 1986, but the central city rate rose above the nonmetro rate in 1987.

¹ This paper draws heavily from Deavers et al. (1988).

² Generally speaking, a metropolitan (metro) area is a county or group of counties containing an urban population concentration of 50,000 or more (Beale, 1984). Other counties are classified as nonmetropolitan (nonmetro). Metro-nonmetro designations are revised over time, and therefore vary from data source to data source. Metro-nonmetro definitions are discussed in greater detail later in the text.

Appendix Fig. 1--Poverty rates by residence, 1967-87



Source: U.S. Census Bureau, Current Population Survey, various years.

THE REASONS

Three major factors, listed in chronological order, contributed to the increase in poverty rates from 1979 to 1983 (Getz and Hoppe, 1983; U.S. Census Bureau, 1983; Levitan, 1985):

First, prices increased rapidly in the late 1970's and early 1980's. Because the poverty thresholds are adjusted for inflation, they also increased rapidly. This caused people whose income was just marginally above the poverty level to fall into poverty if their income grew slower than the level of prices.

Second, economic downturns from 1980 to 1982 reduced the earnings of some people enough to make them poor.

Third, tightened eligibility requirements increased poverty by removing people from the welfare rolls.

After the downturns ended and inflation abated, poverty rates declined in central cities, other metro areas, and metro areas as a whole. The current recovery, however, seems to have had a delayed effect on nonmetro poverty, as the nonmetro poverty rate did not decline until 1987. The lag between the recovery and improving poverty rates may reflect recent slow economic growth in nonmetro areas. Relative to metro areas, nonmetro areas appear to have experienced slow income growth that is not correlated with the national business cycle (Henry, et al., 1987).³ Rather, the income gap between metro and nonmetro areas appears to be associated with long-term structural factors, such as foreign competition in agriculture, labor intensive manufacturing, and forestry products.

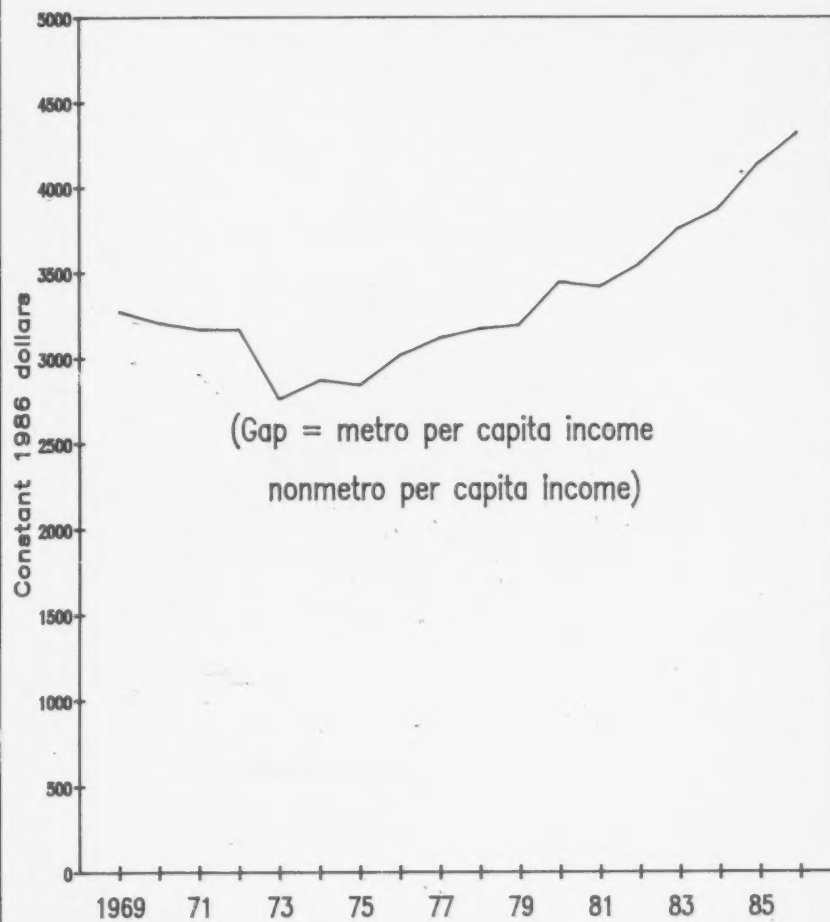
This gap can be measured by subtracting nonmetro per capita income from metro per capita income. According to the local area personal income⁴ data prepared by the Bureau of Economic Analysis (BEA), metro per capita income was about \$2,800 higher in 1973, and the difference increased to \$4,300 by 1986. (See figure 2.) These differences are stated in real terms; they have been adjusted for inflation with the implicit price deflator for personal consumption expenditures. Stating the relationship between metro and nonmetro income slightly differently, nonmetro income fell from 78 percent of metro income in 1973 to 72 percent in 1986. (See figure 3.)

Unfortunately, BEA will not release its 1987 per capita personal income estimates for metro and nonmetro areas until May 1989. Whether the downturn in the nonmetro poverty rate was accompanied by a decline in the income gap will not be known until then.

³ Employment growth has also lagged in nonmetro areas. There was a greater rise in unemployment rates in nonmetro areas during the downturns at the beginning of the 1980's, and the nonmetro recovery has been slower (Deavers et al., 1988).

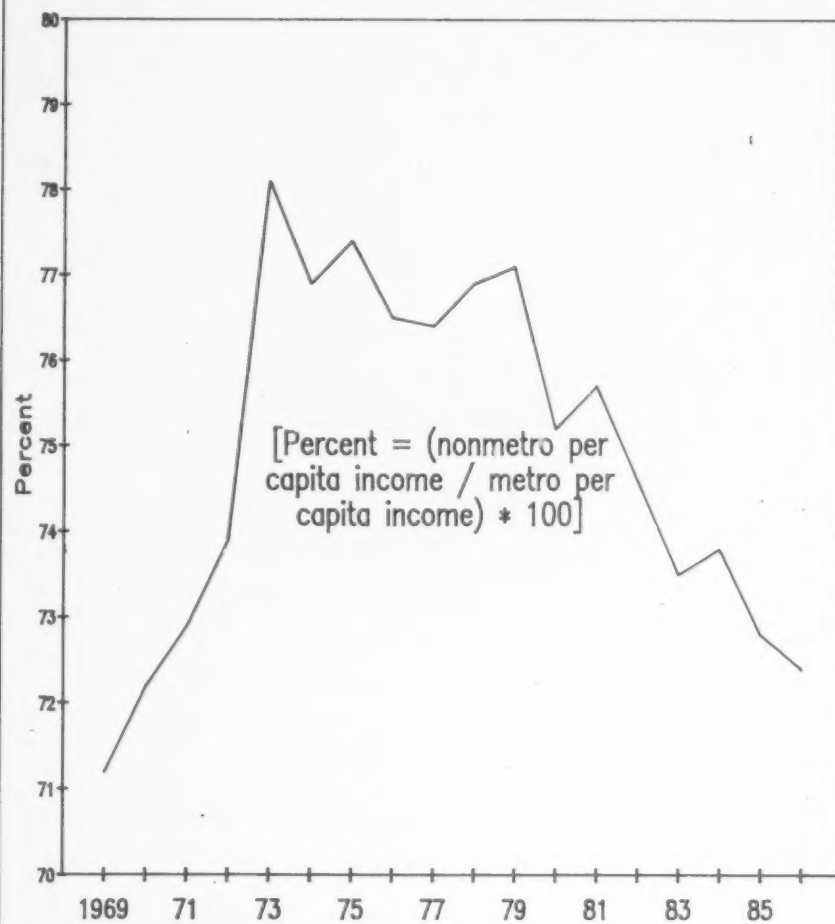
⁴ Personal income is the income that people receive from all sources. It is made up of wages and salaries, other labor income, self-employment income, property income, and transfer payments (U.S. Department of Commerce 1986).

Appendix Fig. 2--Nonmetro per capita personal income gap, 1969-86



Source: Bureau of Economic Analysis (1988).

Appendix Fig. 3--Nonmetro per capita income as a percent of metro



Source: Bureau of Economic Analysis (1988).

TECHNICALITIES

A major change in metro-nonmetro designations used by the Census Bureau may also help explain why the nonmetro poverty rate remained so high from 1983 to 1986. Beginning with the 1985 poverty data, metro-nonmetro designations as of June 1984 were used rather than designations based on the 1970 Census (U.S. Census Bureau, 1988, p. 160).⁵

This change decreased the nonmetro population by approximately 20.5 million or 28 percent. The formerly nonmetro areas that were reclassified to metropolitan were more likely to be prosperous than the areas that remained nonmetro. The reclassification, therefore, would tend to raise the poverty rate of those who remained nonmetropolitan.

However, the Census data are confirmed by BEA data. Unlike the Census poverty data, the BEA income data (figures 2 and 3) used a constant metro-nonmetro designation, the one existing as of June 1986. Yet, both the BEA and Census data show essentially the same general trend—nonmetro areas falling behind metro, at least until 1986—despite differences in how metro and nonmetro areas are defined.

Some may also argue that nonmetro poverty is not as severe as the poverty rate indicates, because the official poverty statistics do not consider benefits received in kind rather than in cash from such programs as Food Stamps, Medicare, and Medicaid. However, even after counting in-kind benefits as income,⁶ both metro and nonmetro poverty rates increased sharply after 1979 (U.S. Census Bureau, 1988). For example, with in-kind benefits included as income, the nonmetro poverty rate grew from 8.6 percent in 1979 to 13.2 percent in 1983. The adjusted nonmetro poverty rate decreased to 10.8 percent by 1987, still substantially higher than in 1979.

After counting in-kind benefits as income, poverty is still more prevalent in nonmetro than metro areas. In 1987, the nonmetro adjusted poverty rate (10.8 percent) was 3 percentage points higher than the corresponding metro rate (7.8 percent). Note that in-kind benefits do not present a problem in the BEA data, because BEA counts in-kind benefits as income.

IMPLICATIONS

Even after taking in-kind benefits and changing metro-nonmetro designations into account, it is still clear that nonmetro areas have fared worse than metro areas. Both Census poverty data and BEA personal income data show that nonmetro areas have fallen behind metro areas in recent years.

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⁶ The market value method was used to assign a dollar value to in-kind benefits. The market value is the purchase price of the good or service provided. This method assigns a high dollar value to in-kind benefits and reduces poverty the most (Getz, 1985).

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II. PANEL ON FACTORS AFFECTING INCOME AND EMPLOYMENT IN PERSISTENT POOR AND TEMPORARY POOR RURAL AREAS

The three panelists were asked to explore the extent to which rural economic conditions are the result of macroeconomic or microeconomic forces, and whether these forces can be manipulated to impact rural areas more favorably. Tom Hady looked at the macro forces on a national basis, while Lou Swanson and Glen Nelson focused on macroeconomic and microeconomic factors in two regions: the Southeast and the Midwest. They were asked to consider whether general purpose income and employment programs are adequate, or whether specialized rural programs are required. Should programs focus on moving jobs to people, or people to jobs, or some mix of the two approaches?

Two discussants, one from a Northeastern land grant university, and the other from the Southeastern Federal Reserve Bank, responded to the papers presented by these panelists. Dave Brown, of Cornell University, commented that the first point made by the papers is that agriculture no longer is a dominant factor in the performance of most rural economies—therefore, except for a few areas, agriculture and agricultural policy are not critical for income and job generation.

The second theme is that local employment and income growth are importantly tied to macroeconomic conditions and to monetary and fiscal policy, though the impacts are different on different local economies. The impacts can be different on the same industrial categories (e.g., manufacturing) if they have different occupational compositions (e.g., manufacture of clothing as compared to manufacture of space hardware).

A third point is that investment in human capital is closely related to an area's economic condition. Human capital investments tend to increase the productivity of labor, which affects ability to generate income, particularly over the longer term of a region's economic life.

Fourth, diversification of economic activity shields local economies from boom and bust conditions and contributes to stability of employment. Brown suggests two possible elements of a strategy to develop a diversified economy: increased interlocal cooperation among small rural communities, and commuting.

Finally, small area data are essential for understanding local economic conditions and why they change or are stable. At present, the data for small areas are insufficient to the task.

Brown identifies certain clues as to the underlying causes of long-term, persistent poverty in certain areas: insufficient investment in human resources, deeply ingrained structural vestiges of racial discrimination, inadequate organizational infrastructure, particularly local government, and relative isolation and small

community size. Policies for these areas might include: large-scale improvement in educational resources, including training and retraining and assistance for displaced workers; help to build organizations that are effective in promoting, managing, and retaining economic growth; fostering vigorous economic growth nationally; and income transfer programs.

Gene Sullivan, research officer at the Federal Reserve Bank of Atlanta, chose to focus on his particular region, the Southeast. Sullivan questioned some of the panelist's assertions that recruitment of industry does not benefit the people in rural areas. He suggested that measures of the contribution of these industries should be broadened beyond poverty, income level, and unemployment indicators. However, he acknowledged that in the Federal Reserve Bank of Atlanta's service area, there is an urban/rural differential in the quality of manufacturing. The unskilled types of manufacturing are concentrated in and dominate the rural areas. These are the industries that are most vulnerable to competition from industries abroad, and these areas have lost employment. Sullivan expects that mechanization will increase in these industries, leading to even more displacement of low-skilled, undereducated people. He commented that "... the migration to the towns and the cities in the vicinity is speeding up, and that seems to me to be the solution that is developing out of this despite other efforts that are being made to encourage rural development."

Sullivan commented that the identification of education as a strong influence in rural economic development is useful, because it's an area where policy contributions can be made. He suggests looking at rewards for teachers who are stimulating students to learn, rewarding parents and students for improving school attendance, rewarding success in elevating mediocre performance one notch instead of making all rewards to the most outstanding students, and increasing the value that parents place on education.

RURAL AREAS AND THE NATIONAL ECONOMY

By Thomas F. Hady¹

In 1891, Thomas Hady filed the final affidavit for his homestead near Oakes, North Dakota, having broken 116 acres of tough prairie sod. In 1895, he lost that farm. His family had joined one of the two groups the organizers of this conference asked us to focus on: the temporarily poor. Further, a few years later the family was down to its last \$5 gold piece, and I am not sure but what it would have been labeled "persistently poor," our other category.

The factors that brought down my grandfather shed some light on current policy concerns, as well. Partly, his economic troubles resulted from farm prices which fell to levels unknown since the 1840's (Wright, p. 706). These falling prices were a major factor in the debates over the free coinage of silver—the 19th century equivalent of our debates over expansionary monetary policy. National economic conditions were important to rural economies then, and part of the thesis of this paper is that they are still important.

Local factors also were important in bringing my grandfather near bankruptcy. North Dakota was only recently settled, railroads were just being built, and I suspect markets were far away and shipping expensive. Perhaps more importantly, North Dakota experienced severe drought. Those factors have their modern counterparts, as well; part of the thesis of this paper is that problems of rural unemployment and poverty cannot be solved by macroeconomic policy alone.

There are, however, major differences between now and then. In 1900, agriculture was much more important in the economy. Forty-two percent of the U.S. population lived on farms (Historical Statistics, p. 475) and farmers produced more than 20 percent of the Gross National Product (Historical Statistics, p. 232). Today, most rural residents are not farmers. Although nearly a quarter of our population lives in rural areas, fewer than 3 percent of Americans are farmers and they produce about 2 percent of GNP (Statistical Abstract, pp. 408 and 607). More than 20 percent of our manufacturing and construction employment was in nonmetropolitan American in 1984 (Malley and Hady, 1988, p. 10-13), and 21 percent of total wage and salary employment was there (McGranahan, p. 2-12). Whereas farm policy and rural policy formerly were almost synonymous, nowadays farm policy directly affects only a fraction of rural people.

¹ Chief, National Economy and History Branch, Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture. Paper prepared for "Towards Rural Development Policy for the 1990's: Enhancing Income and Employment Opportunities," a symposium sponsored by the Congressional Research Service at the request of the Joint Economic Committee, Sept. 29-30, 1988. Special thanks are due Ken Deavers, John Kitchen, Richard Long, James Malley, Ralph Monaco, and Gerald Schluter for their help.

We do not have adequate models with which to link major national policy initiatives to their impacts on rural areas (Nelson). I believe existing knowledge is adequate, though, to suggest some conclusions about the role of macroeconomic policy in rural development.

A RISING TIDE

Stock market analysts are fond of pointing out that a rising tide floats all ships. Clearly, though, a rising economy does not float all local economies equally. (See figure 1.) While nonmetropolitan employment changes followed total civilian employment changes rather closely during the 1977-87 period, nonmetro employment has risen less, on a percentage basis, than the national average in every year, and the situation seems to have worsened during the last 4 years. The chart graphically illustrates the change since the "rural renaissance" of the early 1970's, when workers were moving to the countryside in large numbers. Nonmetro America clearly depends on the healthy of the national economy for new job creation, but it appears that a healthy national economy will not, by itself, erase the movement of jobs to metropolitan areas.



GNP CHANGES AND RURAL EMPLOYMENT

Monetary and fiscal policy affects employment in some industries more than in others. We can trace those effects through to different types of rural areas, and describe the way national economic policies will influence employment in each area.

VARYING REGIONAL IMPACTS

In two recent papers, James Malley and I estimated the impacts of monetary and fiscal policy changes on employment in metro and nonmetro areas (Malley and Hady, 1987, 1988). The logic of the model is fairly simple. Changes in monetary and fiscal policy affect the Gross National Product (GNP). GNP changes, in turn, affect employment, but the size of that effect is different in different industries. Given estimates the percent change in national employment in each industry, and knowledge of the mix of industries in a region, roughly estimates of the impacts of GNP changes on employment in the region can be derived.

We used four industries for our estimates: manufacturing and construction, services, government and primary goods (which includes agriculture, forestry, fishing and mining). Fundamentally, the study found that in the aggregate nonmetro areas were not quite as vulnerable as metro areas to employment changes from variations in national economic policy, but the effects are nonetheless important. For example, a sustained 100 basis point (1 percentage point) fall in the rate on 3-month Treasury bills from 1987 to 1994, we estimated, would raise employment in metropolitan areas by an annual average of 1.36 percent above its path without the interest rate fall. Nonmetro employment would rise by just under 1 percent. Because of their varying industry mix, though, regions fare very differently. The nonmetro Midwest would gain an average each year of only 0.7 percent employment, whereas the nonmetro South would gain 1.1 percent and the nonmetro West 1.2 percent.

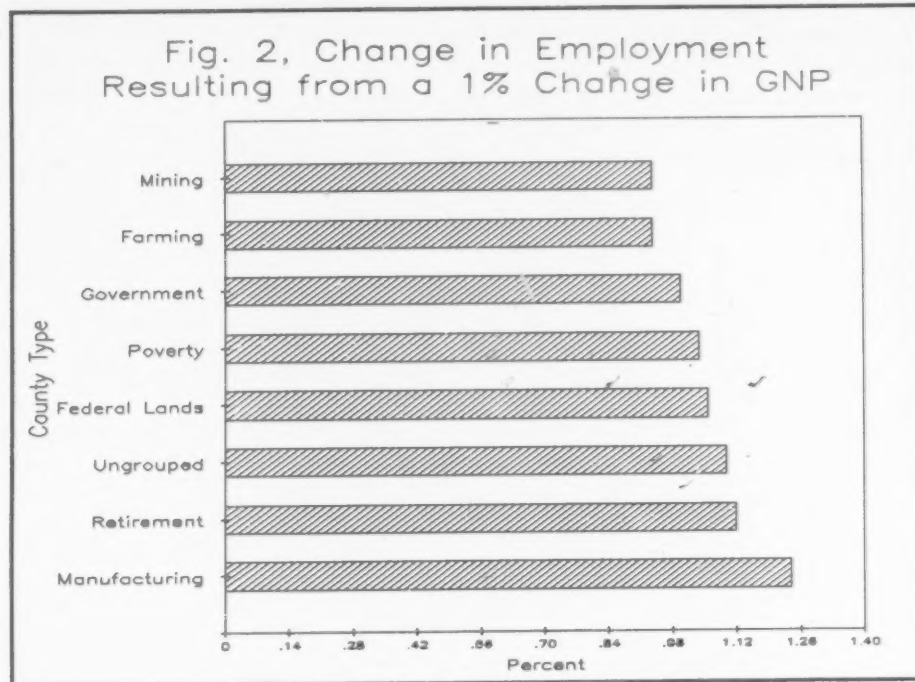
Looking at those figures another way illustrates the importance of national economic growth to rural America. At the time of the study, the Congressional Budget Office was forecasting an average growth rate of 2.3 percent over the 1987-92 period. The Council of Economic Advisers was forecasting 2.9 percent growth, just slightly more than 0.5 percent higher. The higher rate of growth would result in another 400,000 jobs in the nonmetro South, and 800,000 more in all nonmetro areas.

INTERACTIONS WITH POLICY

Simply looking at counties according to regions and metropolitan status, though, ignores a wide variety of characteristics that are relevant to policy. In 1985, a group of researchers in the Economic Research Service developed a classification of nonmetro counties that takes account of a variety of policy-related characteristics (Bender, 1985). Some of those classes derive from the economic base of the county: Farming and manufacturing counties are examples. Others derive from important social characteristics: Persistent poverty counties. Still others are perhaps best viewed as a combination of economic base and social characteristics. Retirement counties are an example. All the classes, though, reflect elements which a group of experienced analysts had observed were important for the types of policy questions which ERS is often asked to study.

To add another dimension to the question of the relationship between the macroeconomy and rural areas, I used the employment elasticities found in the previous study (Malley and Hady, 1988)

and applied them to the 1980-84 average distribution of employment in each of the county types. The resulting long-term elasticities (figure 2) indicate the ultimate percent change in employment that might be expected from, say, a sustained increase in government spending equal to one percent of GNP. Manufacturing counties, as one might expect, turn out to be more sensitive to the national economy than average; farming and mining counties are less sensitive in this analysis.² Persistent-poverty counties are perhaps a little less sensitive than average, but the difference is small and probably not significant. (For reasons explained later in this paper, the results for agriculture should be taken with caution.)



These results underline the varying impacts of national economic policy on poverty in nonmetro areas. To the extent that unemployment is a cause of temporary poverty, expansionary national economic policies are likely to help alleviate it more in manufacturing counties than in most others. On the other hand, unemployment in persistent poverty counties averaged nearly 11 percent (compared to a nonmetropolitan average of 8.6 percent), from 1976 to 1987.³ These results suggest that expansionary macroeconomic policies will be of only limited help in reducing that unemployment. An expansion of the national economy strong enough to alleviate poverty due to unemployment in those counties would almost certainly be accompanied by unacceptable levels of inflation.

² Analysts of this subject will recognize that these conclusions should be regarded as coming from a "reconnaissance survey" rather than a definitive analysis. A more detailed structural model would be preferable, as would a formulation which allowed for different employment responses in metro and nonmetro areas, within industries.

³ Calculations by the author from Bureau of Economic Analysis, U.S. Department of Commerce, data.

THE STABILITY OF LOCAL ECONOMIES

The previous discussion has centered on the connections between the Gross National Product and local employment. Some industries, however, are heavily influenced by factors peculiar to the industry, and they have cycles of their own. Hence, it is useful to look at the relative stability of employment in areas where different types of activities predominate.

One recent study compared six specialized types of labor market areas, together with diversified areas (Killian and Hady). A labor market area (LMA) was defined as a group of counties that provide most of the employment for their residents. A labor market area was specialized if 10 percent or more of its workers were in 1 of 49 industrial categories, and those specializations were then summarized into six types: agriculture, mining, textiles-apparel, wood products, durable manufacturing, and public education/administration.

Comparing economic data across LMA's illustrate how difficult it is to draw clear-cut conclusions about the economic performance of different types of areas (See table 1.) Areas specialized in manufacturing durables ranked highest in per capita income. They ranked lowest, though, in both employment and income growth from 1969 to 1984—durables manufacturing was not a growth industry in the U.S. during that period.

TABLE 1.—SUMMARY ECONOMIC PERFORMANCES OF RURAL LABOR MARKET AREAS ¹

LMA type	Per capita income	Unemployment rate	Income		Employment	
			Growth	Stability	Growth	Stability
Specialized:						
Agriculture	6	7	3	1	5	3
Mining	2	1	7	2	7	2
Wood products	5	3	2	4	6	4
Textiles-apparel	1	6	6	5	2	5
Durable manufacturing	7	2	1	3	1	1
Public education/administration	3	5	4	7	4	7
Diversified	4	4	5	6	3	6

¹ The numbers in this table refer to the relative rankings, from low to high, of the seven LMA types on each of the six economic performance factors (1 = worst performance on that indicator and 7 = best performance on that indicator).

As one might expect, labor market areas in which education or government functions, such as military bases or national parks, are important tend to show quite stable incomes and employment. They are not, however, among the top areas in per capita income. Mining areas rank low on all indicators except income and employment growth, and their high ratings on the growth factors must be regarded as suspect: the 1969-84 study period coincides with the era of OPEC and rising energy prices. A study period beginning and ending 10 years earlier might have shown very different results.

The main point of these data, though, is to suggest how complicated the local development problem is. Every small town wants good, clean, high-paying, stable industry that will hire mostly local workers. These data suggest that, for an aggregate as big as a labor market, that ideal industry is hard to find. Any specialization is

likely to involve tradeoffs—more instability for more income, or slower growth for more stability, for example. The nearest solution is to diversify, so that losses in one area can be matched by gains in another.

AGRICULTURE AND THE ROLE OF PRICES

This paper has concentrated on employment impacts. For most industries, changes in employment provide an adequate first approximation to the impacts of macroeconomic policy (at least in a less-than-full-employment economy.) That is not true in agriculture and mining, however. In the case of agriculture, there are major measurement problems. In both industries, price changes are particularly important.

Somewhat more than half of the paid farm work force consists of self-employed farm operators (Cox and Oliveira). Under the U.S. definitions, sole proprietors are not counted as unemployed unless the enterprise fails (Nilsen). Hence, agriculture is likely to be characterized more by underemployment, which is not shown in the usually published statistics, than by unemployment.

Primary goods prices, on the other hand, tend to be quite volatile. Mostly, this volatility stems from causes other than fiscal and monetary policy. Recent research, though, has focused on the applicability to agriculture of the distinction between what Hicks called fixprices and flexprices (Hicks). Prices of crude products—farm products and mining products in the framework here—adjust rapidly to changes in monetary and fiscal policy. Manufactured products adjust more slowly (Bordo). Many analysts now carry this idea a step further, and argue that agricultural prices will overshoot their longrun equilibrium to allow the economy to adjust to the sticky nonagricultural prices. As nonagricultural prices adjust to their longrun equilibria, agricultural prices will gradually move back to their equilibria as well (Chambers, 1984, 1985; Frankel and Hardouvalis; Rausser; Rausser, Chalfant, and Stamoulis). The overshooting theory is frequently cited as important during the early 1980's although its importance in more recent years is less widely accepted. Whether or not one accepts the overshooting argument, however, the comparative variability of primary goods prices means that incomes in areas specialized in these goods will fluctuate more widely.

IMPLICATIONS

It seems clear that national macroeconomic events have a major influence on rural areas. Whether that influence is more or less than in metro areas seems to me to be an unprofitable generalization to try to make. Policy changes will affect some nonmetropolitan areas more, and some less, than others. What clearly is needed is better models which can tell us the distribution of impacts of policy changes among regions, metropolitan status, and economic sector (as well as the impact on the personal distribution of income). One criterion in choosing among alternative policies should be the distribution of their impacts.

To try to use national macroeconomic policy as a tool for rural development, however, seems unreasonable. Macroeconomic policy

can provide a stable, growing economy as a fertile environment for rural development. It is a crude tool with which to try to influence the geographic distribution of changes in income and employment—the essence of rural development.

These findings tell us something about the relationships between macroeconomic events and poverty, but they need to be interpreted with care. Unemployment is an important cause of temporary poverty (Ross and Morrissey). To the degree that we stabilize the general economy at high employment, we should reduce temporary poverty. The studies cited here suggest, though, that some areas still will experience wide swings in unemployment, and temporary poverty, because of the characteristics of their industrial mix. This is likely to be true of the rural South, for example, and of areas specializing in such industries as durable manufacturing. Further, temporary poverty caused by factors other than unemployment is not likely to be affected greatly.⁴

If persistent poverty is largely associated with poor education, old age, disability and lack of job skills, macroeconomic policy is not likely to help much. There may be some tendency to pay more attention to training and improving job skills when labor markets are tight, but labor markets tight enough to generate significant employment of the poorly educated, disabled and unskilled also be likely to generate unacceptable levels of inflation.

If the purpose is to ensure the economic future of Oakes, North Dakota, or its analogues in Oregon or Alabama, macroeconomic policy is too dull a tool. Rural development policies commonly have as their objective some concept of insuring that rural areas grow roughly in proportion to the United States. Macroeconomic policies affect the overall rate of growth. The particular mix of macroeconomic policies may have some influence on the geographical distribution of that growth, but it does not seem particularly wise to design macroeconomic policy to serve a few sectors or regions. The wiser course would be to adopt macroeconomic policies that are best for the whole economy. Then, recognize the localized problems these policies leave unresolved, and counteract those problems with more precise tools of intervention—regional or sectoral approaches.

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⁴ An important exception is temporary poverty in agriculture and other commodity-based industries, to the degree it is caused by low prices brought on by the flexibility of commodity prices in response to changes in monetary or fiscal conditions.

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SOUTHERN EDUCATION, POVERTY, AND RURAL DEVELOPMENT: THE CASE FOR NEW POLICY ASSUMPTIONS

By Jerry R. Skees and Louis E. Swanson ¹

The need for rural development is no longer an issue. Rising poverty (Deavers, Hoppe, and Ross, 1988), an expanding per capita income gap between metro and nonmetro counties (Henry et al., 1987), high levels of rural unemployment, underemployment, and discouraged workers (Skees, 1988), high functional illiteracy rates (Deaton and Deaton, 1988); crises of health and nutrition (Haas and Shortland, 1986); and deteriorating physical infrastructures built during the first half of this century (Beaulieu, 1988), offer unassailable evidence of rural America once again falling behind. Even the national media has found the deep social and economic distress and described the quiescence of its victims. (See Newsweek, 1988.) No rural region of this country is more worse off than the nonmetropolitan counties of the South. (See Beaulieu, 1988.)

This report does not dwell on documenting plight of the rural South. A regional conference in Atlanta during May of 1987 entitled "The Rural South in Crisis" has already done so. (See Beaulieu, 1988.) Rather we assess those socioeconomic factors most associated with poverty, family income, and unemployment as a means for identifying social phenomena that can be manipulated through rural development policies for alleviating current conditions. That is, we will identify those factors—such as education and jobs—that, when enhanced can facilitate a meaningful rural development process.

However, our endeavor is hampered by some data handicaps. The most serious is a lack of current regional and national data on socioeconomic conditions. Moreover, that data which are available for States is often plagued by measurement problems—this is particularly the case for data on unemployment. Consequently, this report relies upon county-level regional data for the 1970 to 1980 period, supplemented by more current information on education and employment for Kentucky.

RURAL WELL-BEING IN THE SOUTH

The first presentation of these data and findings were first reported as part of the Office of Technology Assessment (OTA) project *Technology, Public Policy, and the Changing Structure of American Agriculture* for the Rural Community work group (OTA,

¹ Skees is associate professor of Agricultural Economics and Swanson is associate professor of Sociology in the College of Agriculture at the University of Kentucky, Lexington, Kentucky. This paper was presented at a symposium on rural development sponsored by the Congressional Research Service at the request of the Joint Economic Committee of the United States Congress on September 29, 1988, Washington, DC.

1986, Swanson, 1988). However, the data presented here are for more thoroughly specified models than those reported for the 1986 OTA project. (See Skees and Swanson, 1988.) Specifically, the earlier OTA report did not include data for education, the black population, and commuting patterns—all of which are key variables for a thorough assessment of community well-being in the rural South. Figure 1 indicates those Southern States included in the analysis. Florida and Texas were omitted for the OTA study because of the high concentration of industrial farm structures in those States.

The South offers a unique insight into persistent poverty in the U.S. According to Hoppe (1985) 90 percent of the persistently low-income counties in the United States are located in the South. The models and maps presented here demonstrate that historic pockets of poverty in the South are highly associated with levels of education, unemployment, median family income, and marginal manufacturing and service sector opportunities. As was the theme for the conference on *The Rural South in Crisis*, this regions faces the challenge of vitalization, not revitalization.

These data are for 1969-70 and 1978-80. All data are for counties and were collected for either the Census of Population or Census of Agriculture. Three dependent variables were examined: (1) Percent of families below poverty, (2) median family income, and (3) percent of the labor force that was unemployed. All financial data are adjusted in 1983 dollars for purposes of comparison. Each dependent variable has three models, one each for the two cross sections (1969-70 and 1978-80) and one for change between these points in time. The poverty, family income, and unemployment models are presented in Figures 2, 3, and 5, respectively.

The data were analyzed using multiple regression, with the change models employing a standard panel analysis technique (Kessler and Greenberg, 1982). However, the findings are reported as elasticities. This permits us to estimate, given measurement error, the degree to which each dependent variable is associated with each independent and control variable. A point elasticity provides for a focus on percentage changes at the mean values for all other variables. In a simple linear model where:

$$y = a + bx,$$

the percentage change in y with respect to x is calculated by taking the partial derivative of y with respect to x and multiplying by the ratio of the mean values:

$$\text{the point elasticity} = b(x/y).$$

The point elasticity represents the percentage response in the dependent variable as the explanatory variable is increased by 1 percent. All other variables are maintained at their mean values. Thus, larger point elasticities represent stronger relationships between the dependent and independent variables. Point elasticities are used because we feel this gives both the academic and lay reader a better understanding of the relative strengths of association. Each of the remaining Figures present these point elasticities as bar graphs.

Table 1 provides a list of all the variables to be used and their operational definitions. Table 2 presents the means for each of

these variables for 1970 and 1980 as well as for their change between these two points in time. Table 3 presents a comparison of the nonmetropolitan South with the rest of the U.S. for selected indicators of quality of life for 1970 and 1980.

The analysis of how farms and rural communities are associated with one another appear in Figures 2 through 5. These nine models represent each of the three dependent variables noted above for 1970, 1980, and change between 1970 and 1980. Each of the six cross-sectional models have the same independent variables and control variables. The three change models have these variables as well as a control variable for the dependent variables 1970 value—the initial point in time (the rationale for this temporal control is discussed above).

The historic assumption pertaining to rural development is that farm well-being determines community well-being (Swanson, 1988). Moreover, this assumption has been and continues to be central to the rural development agenda of populist movements. The most acclaimed study undergirding this assumption is Walter Goldschmidt's 1944 study of Arvin and Dinuba, California. However, recent research has questioned the utility of this assumption (see Moxley, 1987), including the present study. Given the importance of this policy assumption, our models offer several variables of farm structure, none of which is highly correlated with the others. There are four farm structural variables, each tapping a different dimension: (1) Farm size (gross sales), (2) proportion of small farms, (3) part-time farming, and (4) the proportion of the rural population that are in farming. Six nonfarm variables are used: the percent of the county's work force employed (1) in manufacturing and (2) in service industries, (3) the county's proximity to metropolitan areas, (4) the percent of the county that is black, (5) the percent of the county's adult population (aged 25 and over) that finished high school, and (6) the percent of the county's labor force commuting to work outside the county. These variables present alternative explanations of community well-being. More importantly for this study, these variables help inform new assumptions concerning the character, necessities, and policy options for modern rural development initiatives.

If the Goldschmidt hypothesis is correct for both cross-sectional analyses, average farm size will be positively associated with the level of unemployment and the level of poverty but negatively associated with median family income. However, the opposite association will be expected for the indicators of small farm concentration and the rural population's dependency on farming. In the case of the change models, the Goldschmidt hypothesis predicts that change in farm numbers should be positively associated with change in the median family income and negatively associated with change in the level of unemployment and poverty. Finally, the quality of life models for unemployment and poverty will have as an independent variable the level of unemployment.

Goldschmidt does not directly address the phenomenon of part-time farming. However, Swanson's (1982) study of Pennsylvania as well as the work of Bonanno (1985) suggests that part-time farming may be a function of nonfarm employment opportunities. Bonanno argues that part-time farming can represent a type of "welfare"

function for rural areas and a labor pool for nonfarm industries. Swanson's work suggests that entry into part-time farming may slow the transition to a highly concentrated farm structure. Therefore, part-time farming is included for reasons other than the Goldschmidt hypothesis.

This study attempts to go beyond the simple unidirectional effects of the Goldschmidt hypothesis by including indicators of regional economic conditions. By including four indicators of farm structure, we expect to give the Goldschmidt hypothesis a fair chance to be associated in at least one of several dimensions of farm structure.

It is also expected that the proportion of the county that is black and the educational level of the county will also influence community well-being. Because of the history of segregation in the South, counties with the greatest concentration of blacks are expected to score poorly on indicators of county well-being. Similarly, those counties with low levels of education are most likely to score poorly on the well-being measures. Finally, the commuting measure was included as a control for employment opportunities in nearby counties. As with the farm structure models, only the most salient points are noted for the sake of brevity.

We examined both the Goldschmidt and the MacCannell (1988) hypotheses. The latter argues for curvilinear relationship such that both small and super farming operations are associated with adverse socioeconomic conditions in nearby rural communities, and mid-sized (family and larger-than-family) farms are favorably associated. (See Skees and Swanson, 1988.) In other words, an inverted "U" relationship was hypothesized. For two of the dependent variables—median family income and percent of families below poverty—a quadratic equation was used to simulate the hypothesized curvilinear relationship. The use of a quadratic equation made no substantive contribution to the analysis. Therefore, we retained the linear assumptions of the Goldschmidt hypothesis, which assumes as average farm size increases median family income will decrease while the percent of families below poverty will increase. However, for the third dependent variable—percent of the labor force unemployed—there was clear support for the MacCannell. The quadratic equation was not used in the change model since an inverted "U" relationship is not expected.

THE FINDINGS

1970 MODELS

Figures 2a through 2c present the results for the cross-sectional analysis for 1970. Average farm size is significantly associated with each of the dependent variables. However, the direction of each association is not in the direction anticipated using the Goldschmidt hypothesis. Counties with larger average scale farms were more likely to have higher levels of median family income and lower percentage of families in poverty in 1970. Furthermore, in counties where the rural population was more dependent upon farming, median family income was likely to be lower.

In 1970 part-time farming were not associated with any of the community well-being variables. The quadratic equation is dis-

cussed below in the 1980 section in order to highlight their differences. We will simply note here that the 1970 quadratic for farm scale was highly associated with unemployment.

Counties with a higher proportion of their labor force in manufacturing were likely to have lower levels of unemployment and poverty, and higher levels of median family income. Service industries were not associated with either poverty or unemployment, but it was negatively associated with median family income—meaning that counties with higher proportion of the labor force in service industries were more likely to have lower levels of median family income.

Unsurprisingly, counties with high levels of unemployment, poverty is higher and income is lower. Also, unsurprisingly, counties that were at the greatest distance from metropolitan counties were more likely to have higher levels of poverty and higher unemployment. Counties with higher levels of commuters were more likely to have less poverty, lower unemployment, and higher levels of income.

It was expected that the higher the proportion of a county's population was black and more likely the county would score poorly on the three dependent variables. This was the case for poverty and median family income, but not for unemployment.

The variable that was consistently highly associated with the dependent variables was the proportion of a county's adult population that had finished high school. Indeed, it is impossible to over-emphasize its importance. Counties in which a large proportion of the adult population had not finished high school had much higher levels of poverty and unemployment and lower levels of median family income.

1980 MODELS

Figures 3a through 3c present the results for the 1980 cross-sectional models. As with the 1970 models, the farm structure variables were either not related or only weakly related with the community well-being measures. The exception, as in 1970, was for the quadratic function of farm scale.

Figure 4 presents the curvilinear association between farm scale and unemployment for both 1970 and 1980, with the darker line representing 1970 and the lighter line 1980. While both curves were quite significant in terms of their probability, the 1970 curve is much more pronounced. Three interpretations, which are not mutually exclusive, can be made. First, for both points in time the data support the MacCannell hypothesis of an inverted "U" association. Counties with relatively small average farm size are less likely to be associated with lower levels of unemployment than medium scale farms. Moreover, counties with very large average farm scale are likely to be associated with higher levels of unemployment, supporting the notion that large-scale farming has undesirable consequences for local societies. Therefore, this finding offers some support to the argument that medium sized operations may be the most beneficial for rural communities, even though these also may be larger-than-family operations.

Second, the nadir for each point in time is different. The nadir for each line represents the average scale of farms that is most likely associated with low unemployment. In constant 1983 dollars the nadirs for 1970 and 1980 are \$52,000 and \$115,000, respectively. This suggests that what is a "medium-sized" farm in 1980 is considerably larger than in 1970. This finding supports the notion that the scale necessary to compete successfully in commercial farming has been ratcheted upwards as the process of farm concentration proceeds.

Third, the seemingly weaker association for 1980 is probably due to higher levels of unemployment among Southern rural counties in 1980 than in 1970. This situation creates a statistical condition in which the amount of variation in unemployment increases the closer the region approaches full employment. Therefore, since there was more unemployment in 1980 there was less variation. If so, then if unemployment were to decline, it is expected that the stronger association that was evident in 1970 would reemerge.

In 1980, counties with a higher proportion of their labor force in manufacturing were likely to have lower unemployment and lower poverty, but also had lower levels of median family income. This is different from 1970, and suggests that by 1980 manufacturing might keep you out of poverty but it did not promise a significantly higher standard of living. Similarly, counties with higher proportions of their labor force in service industries were likely to have lower median family incomes and higher levels of poverty and unemployment. These findings suggest that neither manufacturing nor service industries were keys to rural development.

In both 1970 and 1980, counties that are the farthest away from the economic sphere of influence of an SMSA were more likely to have higher levels of unemployment, lower median family income, and a higher proportion of their families in poverty. In other words, counties that are the most rural are more likely to have the lowest standard of living when these variables are used as indicators. The same patterns were found for commuting as in 1970.

As in 1970, counties with a higher percentage of blacks had lower levels of median family income and higher levels of poverty, but was not associated with unemployment. Once again, education was the most consistent variable explaining community well-being, with the primary difference with 1970 being that the associations were stronger.

CHANGE BETWEEN 1970 AND 1980

Figures 5a through 5c present the analysis of change between 1970 and 1980. As with the cross-sectional models, the farm structure variables do not contribute substantively to changes among the three indicators of community well-being. Change in farm numbers was only weakly associated with median family income, though this was in the expected positive direction. Farm size was associated with each of the variables, though again weakly. Counties that experienced the greatest increase in farm size were more likely to experience the greatest increase in poverty, the least in median family income, but the least in unemployment. Part-time farming was also weakly associated with each dependent variable.

Counties that had the greatest increase in part-time farming were more likely to have greater increase in median family income, and greater decreases in both poverty and unemployment. This offers some support to the work Swanson (1982) and Bonanno (1987).

These findings, while not entirely rejecting the assumptions of the Goldschmidt hypothesis, nonetheless do not provide the type of support that was expected. The farm structural variable simply were not very important in explaining change in community well-being. However, the nonfarm variable did perform better.

With a single exception, change in manufacturing and service employment is not associated with change in county well-being. The exception was the association between service industries and unemployment. Counties that experienced the greatest increase in service employment were more likely to have the least improvement in unemployment. Improvements in the private sector expansion were not associated with improved indicators of community well-being, and in the case of the service sector, the association was in an undesired direction. This finding calls into question rural development efforts based simply on expanding manufacturing and service industries.

Distance from an SMSA was associated with change in all three dependent variables. The greater the distance from an SMSA the more likely a county would experience the least improvement in poverty and median family income, while have the greatest increase in unemployment. Once again, the data suggest that those counties furthest from metropolitan areas and their regional and national markets, the more likely they are of being left further behind.

The measure of improving educational levels was also substantially associated with each indicator of community well-being. Counties that experienced the greatest increase in the proportion of their adult population graduating from high school were more likely to have the greatest decreases in poverty and unemployment and the greatest increases in median family income. Where changes in manufacturing and service industries make no substantial differences, improvements in education score extraordinarily well. These finds strongly underscore the necessity of community and national investment in rural education.

As expected, the control variables for 1970 were the most strongly associated with change among the dependent variables.

MAPS OF SOCIOECONOMIC WELL-BEING IN THE SOUTH

Perhaps the easiest way to demonstrate the remarkable pattern between education and measures of poverty, median family income, unemployment and farm structure is through the use of geographical association. Figures 6 through 11 present maps of the Southern States included in this study, with Figure 6 indicating the nonmetropolitan counties. Figure 7 presents the pattern for education attainment in 1980. Note that in counties with any shading had at least half or more of the adult population had not finished high school in 1980. Now compare this map with the maps for poverty (Figure 8), median family income (Figure 9), unemployment (Figure 10), and farm size measured in acres (Figure 11). It seem to us that

there is a clear association between low levels of education and pockets of poverty. This suggests that education is an important dimension to the persistence of poverty and, therefore, certainly a necessary, though not a sufficient, dimension to any rural development initiative.

SUMMARY OF FINDINGS

These findings suggest that the historic assumption that farm well-being determines rural community well-being is no longer valid. This is not to say that a half century ago when this assumption directed Federal rural development policy it was not valid. However, the class structure of rural America has undergone a great transition. In 1920, 48.7 percent of the U.S. population lived in rural area (places of less than 2,500 or open country). Only 30.9 percent of the U.S. population lived in places of 50,000 or more. Moreover, 60.8 percent of the rural population lived on a farm. In 1980, less than 10 percent of the rural population lived on a farm. By 1986, rural employment was dependent upon manufacturing (39.5 percent), service industries (16.5 percent), and local government (13 percent)—primarily public school employment. In 1920 it would have been difficult to imagine a rural America in which more members of the labor force were in public employment than all types of farming. With this great class transition there has occurred a change in the dominant assumptions for rural development. Farm policy is no longer a surrogate for rural development policy.

However, if the current problems of the rural South are not directly the consequence of farm structural change and well-being, neither are they random. The findings point to a constellation of factors that are associated with rural community well-being in the South. These are: (1) Adult education; (2) proximity to a metropolitan area; (3) marginal manufacturing industries; (4) service sector industries, and (5) race.

The single most important factor associated with the well-being of rural communities is the level of education among the adult population. This data strongly support the assumption that education is a necessary but not a sufficient condition for improved community well-being. Distance from a metropolitan area was the second most consistent factor influencing well-being. Those nonmetro counties the most distant from a metro area were most likely to have the worst quality of life. This measure can be used as a general surrogate for access to the most dynamic markets and jobs in the U.S. economy. Those counties on the geographic periphery of the national economy are also on its economic periphery. This explains the poor showing for both manufacturing and service industries. It is not so much that these industries are inherently associated with adverse quality of life conditions, but that those manufacturing and service industries do little to improve such conditions. As numerous studies have demonstrated, rural manufacturing and service industries pay among the lowest wages, have negligible or no employee benefits, are not unionized, and tend to be geographically footloose—that is, willing to move toward other low-wage areas either in or out of the U.S. Finally, the history of racial

inequality continues to cast a shadow over the economic and social well-being of the rural South. Counties with the highest percentage of black citizens also tend to score low on indicators of quality of life. The reader should bear in mind that the associations reported in the various models represents a variation for which all the other variation of all the other variables are controlled for. Still another limitation for these models is that none examine interaction effects.

THE 1980's

We noted earlier that a limitation of this study is the lack of national county data for the 1980's. In order to partially overcome this problem we will draw inferences from employment data collected for Kentucky in the 1980's and from national survey data in an effort to compare trends noted for the 1970's with those that can be empirically assessed for the 1980's.

PATTERNS OF KENTUCKY POVERTY, EDUCATION, AND EMPLOYMENT

The problem of comparable national county data for employment and education can be partially overcome by examining similar Kentucky data for the mid-1980's. By doing so, we believe that the general tendencies found for the 1970 to 1980 period of for the South have continued, at least for Kentucky. Figures 12 through 16 present maps of the Commonwealth for education (1980), all forms of unemployment for 1986, poverty (1980), median family income (1980), and per capita tax base (1980). Also shown here is a map of the 1988 average county scores for the Kentucky Essential Skills. These scores, while a different measure of education, present a pattern almost identical to the 1980 levels of adult education in Figure 13. The lighter shaded counties indicate favorable scores while the darker shades indicate unfavorable scores, with grey shades for scores in the midrange.

A quick examination of the five maps shows the same striking consistency among the various measures of socioeconomic conditions as reported for the nonmetro South between 1970 and 1980. Eastern and south-central Kentucky counties tend to have the lowest levels of adult education and median family income, while having the highest general unemployment and underemployment (measured in terms of total unemployed, discouraged, and underemployed workers) and poverty. Not surprisingly, since these areas are generally poor, these same counties tend to have the lowest per capita tax base.

Western Kentucky more nearly resembles the rural Midwest. These counties tend to score better than eastern Kentucky, with a few exceptions. The north-central part of the Commonwealth, forming a triangle between Louisville, Cincinnati, and Lexington—known to local residents as the *Golden Triangle*—tends to score the highest on all indicators of socioeconomic well-being.

A few conclusions seem obvious. First, education is highly associated with employment opportunities, family income, poverty, and local tax base. This is consistent with the earlier findings, with the exception of the variable measuring the local tax base which was not included in the above models. This suggests that the patterns

for education noted in the 1970's appear to persist into the 1980's. Second, location relative to metropolitan centers (which is a rough measure of a county's access to the most dynamic portions of the national economy) appears to hold. Eastern Kentucky is not only distant from the *Golden Triangle*, but because of its mountainous terrain, transportation infrastructures are generally worse. The southwestern and western portions of the State are near Nashville, Tennessee, Evansville, Illinois, and Owensboro, Kentucky. Third, good employment opportunities are associated with areas characterized by higher standards of adult education and regional traded centers. Finally, these trends appear to have occurred over the last decade and a half. Therefore, it seems safe to assume that these trends will continue for at least the near future.

The centerpiece for a renewed rural development policy should be the assumption that both short-term and long-term initiatives are required. In short term, the most immediate aid should be in job creation and job training, while reform and improvement of rural education systems is a long-term project. Figures 6 and 7 ideographically present the association between employment and education using data for 1986. The pattern is unmistakable. Where you have high levels of unemployment, underemployment, and discouraged workers you also have low levels of education.

In a discouraging study of nonmetro Kentucky in the 1980's, it is reported that those nonmetro counties reporting the greatest increase in population also tended to have had the least improvement in employment or in new jobs (Collins, 1987). The study assumed that most of the growth was due to natural increase and therefore represented population retention rather than in-migration. It also hypothesized that population retention was due to poor job opportunities in the metro areas residents of these counties once migrated toward. It is probably not a coincidence that these counties also have among the lowest levels of adult education. If the study's hypothesis is correct, then many rural Kentuckians, especially those with low job skills and education, may be trapped and thereby constitute a long-term drag on these counties' ability to foster economic development.

CONCLUSIONS

During September 1988, the Bureau of the Census report entitled "Money, Income, and Poverty Status in the U.S." provide further documentation of a disappearing middle class. The study reported a 0.01 percent decline in the national poverty rate at a time when unemployment was reported to be less than 6 percent. In 1986, Henry et al. (1986) reported that the gap in per capita income between metro and nonmetro areas has expanded since 1978. Deavers et al. (1988) recently released data showing an increase in non-metro poverty, estimated at 18.5 percent, up from less than 13 percent in 1978. Their study also pointed out that numerically there are more poor nonmetro Americans than poor central city Americans—a dubious distinction. Haas and Shortland (1986) of the *Public Voice for Food and Health Policy* have documented the physical violence of rural poverty for the health of the poor in the 1980's.

Our study for the nonmetropolitan South in the 1970's occurred during a period of supposed economic prosperity for nonmetro America, a period even claimed to be a Rural Renaissance. Between 1970 and 1980 poverty actually declined from 26.6 percent to 17.6 percent while unemployment increased from 4.9 percent to 7.8 percent. This interesting phenomena is worth noting for two reasons. First, there must have been some type of safety net for the poor, most likely government transfer payments. Second, the rate of poverty was well above the unemployment rate for both points in time (and according to this month's Census report continues to be) indicating that the rural poor are a working poor. Assuming that our study documents the factors associated with quality of life for a relatively prosperous period for the rural South, we can probably assume that these associations are even stronger for a period of decline. At least until the 1990 Census of Population when we will once again have comparable data.

Furthermore, the 1986 employment and 1988 education data for Kentucky strongly suggest that those areas that struggled during the 1970's are rapidly being left behind in the 1980's.

Rural development has once again gained the attention of Federal policymakers, and this might be a hopeful sign for our disadvantaged nonmetro citizens. However, a cynical observation for this recurring policy issue, based upon the tendency for past rural development initiatives to be high on rhetoric and low on commitment, is that this most recent reemergence is simply another cyclical oscillation that will be played out without any significant change in the role or financial commitment of the Federal Government. A less cynical but no less pessimistic interpretation is that the social and economic well-being of rural America has once again deteriorated sufficiently to create a political demand for amelioration. But, this time the economic and social conditions are different enough that the old remedies of *minimalist* rural development policies will not relieve the political and economic pressure. Moreover, this situation is further complicated by a massive Federal budget deficit precludes major funding from new revenues.

Several historic rural development assumptions are no longer useful. First, farming no longer is the single determinant of rural community well-being, except in those areas where it is the *principal* economic activity. This means that Federal farm programs are not surrogates for rural development. Second, minimalist rural development policies of the past two decades have not prevented rural America from once again following behind. These programs have depended upon entrepreneurial skills of the local elites and not on broad-based community activities. Moreover, such programs have fostered increased competition for scarce and usually marginal industries. New rural development assumptions are necessary. The minimalist policies of the past 15 years have not prevented the deterioration of rural economies and social structures since 1978.

In conclusion, this report underscores the need for all types of educational initiatives ranging from adult illiteracy and job training programs to Federal funding of poor school districts' primary and secondary education as a continuing program until these districts can pay the full bill themselves—which might not occur any time soon. Moreover, this educational initiative needs to be espe-

cially targeted to persistent pockets of poverty. The guiding assumption should be that education is a national priority in so much that a fluid and highly skilled labor force is more likely to quickly adjust to changing economic conditions. An ancillary assumption is that a better education provides our citizens the possibility of being more likely to avoid the *trap of poverty* due to an accident of birth by giving them a better opportunity to move toward better paying jobs. Finally, it is possible that by raising the education levels of the populations characterized by persistent poverty, better paying industries might locate in these improved areas, especially those involved in the new *Information Age* businesses. Education is a necessary but not a sufficient condition for meaningful rural development to occur.

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TABLE 1.—VARIABLES AND MEASURES USED IN FARM STRUCTURE AND COMMUNITY WELL-BEING ANALYSIS

Variables	Measurement Description
Farm number.....	Farm number was measured directly as the number of farms reported by the 1969 and 1978 Censuses of Agriculture.
Average farm size sales.....	Farm size was measured directly as the average gross sales per farm. This was computed by dividing a county's total agricultural sales by the county's total number of farms.
Percent part-time farms.....	Part-time farming was measured indirectly as those farm operators who stated that they worked over 99 days a year off of the farm. This number was then divided by the total number of farms in a county.
Land-saving technology expenses per farm.....	Land-saving technology expenses per farm was computed summing total county expenses for fertilizer and other production chemicals and then dividing the sum by the total number of farms in the county.
Average value of machinery per farm.....	Average value of machinery per farm was computed by the Census of Agriculture.
Non-family labor expenses per farm.....	Non-family labor expenses per farm was computed by summing total expenses for hired and contract labor in a county and then dividing the sum by the total number of farms.
Concentration of small farms.....	This is an indirect measure that uses the principle of a Gini coefficient. It is the proportion of farms with less than 180 acres.
Percent full-owner operator.....	This variable is measured directly as those operators reporting that they own all of the farming operation.
Percent of population unemployed.....	This variable is measured directly as those individuals reporting they were unemployed at the time of the census enumeration.
1970 value of dependent variable.....	This variable is only used for the change models and is the dependent variable's 1969 or 1970 value, depending upon when the data were collected. The population variables are 1970 and farm variables are 1969.
Percent of families below poverty.....	This is measured directly by the census of population and refers to all families who reported incomes below the poverty level.
Median family income.....	This variable is measured directly as the family whose income has half of all families below and half of all families above it in terms of family income.
Percent farm of rural population.....	This variable is measured directly as the total number of the farm population divided by the total rural population in a county.
Percent in manufacturing.....	This variable is measured directly using the industry code in the census of population. The total number of people employed in manufacturing is divided by the county's entire labor force.
Percent in service industries.....	This variable is measured directly using the industry code in the census of population. The total number of people employed in service industries is divided by the county's entire labor force.
Proximity to SMSA.....	This measure is based upon a county's geographical position relative to metropolitan areas of different population sizes. The measure was developed by Calvin Beale.
Percent with 12 or more years of education.....	This variable reflects the percent of the county population 25 years or older who have completed at least 12 years of education.
Percent black.....	This variable measures the percent of the county population who are black.
Miles commuting.....	This variable is the average number of miles driven to work for residents of the county. It includes miles driven to other counties for employment.

TABLE 2.—MEANS OF VARIABLES USED IN REGRESSION ANALYSIS

	1970	1980	Change
Dependent variables:			
Unemployment.....	4.94	7.79	2.86
Median family income.....	\$14,054.80	\$18,111.65	\$4,056.84
Poverty (percent).....	26.58	17.57	-9.00
Farm size.....	\$24,674.77	\$46,111.76	\$21,356.83
Farm numbers.....	849	624	226
Independent variables:			
Small farms (percent).....	71.10	67.23	-3.83

TABLE 2.—MEANS OF VARIABLES USED IN REGRESSION ANALYSIS—Continued

	1970	1980	Change
Part-time farms (percent).....	44.28	47.37	3.10
Farm/rural population (percent)	17.48	9.02	-8.46
Manufacturing (percent)	30.32	29.27	-1.05
Service (percent)	7.71	16.83	9.12
SMSA (Beale) (percent)	7.06	7.06	7.06
Black population (percent).....	22.65	21.35	-1.31
Education (percent)	30.89	45.84	14.94
Commuting miles	21.60	28.55	6.95
Full ownership (percent)	70.64	38.00	-32.63
Land-savings technology	\$2,646.00	\$3,617.06	\$958.04
Machinery investment	\$17,023.26	\$36,042.90	\$19,008.29
Nonfamily labor	\$3,049.39	\$2,758.71	\$290.42

TABLE 3.—QUALITY OF LIFE VARIABLES IN NONMETROPOLITAN COUNTIES

Variable	Rest of U.S. county mean	South	
		County mean	Standard deviation
County population.....	¹ 21,738 25,064 (3,331)	23,036 26,723 (3,688)	18,377 21,960 (4,505)
Percent families below poverty	15.0 11.8 (-3.2)	26.6 17.6 (-9.0)	9.7 6.5 (4.9)
Total year housing units	7,550 9,840 (2,293)	7,550 9,907 (2,406)	5,799 7,975 (2,455)
Property taxes per capita.....	\$346 396 (50)	\$103 135 (31)	44 66 (49)
Retail establishments	247 248 (1)	226 237 (10)	177 197 (45.5)
Median family income	\$17,547 20,860 (3,312)	\$14,055 18,112 (4,057)	2,971 3,120 (1,642)
Percent unemployment	4.53 6.5 (2.0)	4.93 7.8 (2.9)	2.3 2.7 (2.3)
Farm/rural population (percent)	27.1 18.8 (-8.3)	17.5 9.1 (-8.4)	12.3 6.8 (6.9)
Percent employed in manufacturing	16.0 15.8 (-.2)	30.4 29.3 (-1.1)	12.2 11.4 (4.9)
Percent employed in services	7.0 18.9 (11.9)	7.7 16.8 (9.1)	2.8 4.5 (4.7)

¹ 1967-70 values are listed first, 1977-80 values are listed second. The change between the two time periods appear in parentheses.

Figure 1: States Included in Study on South

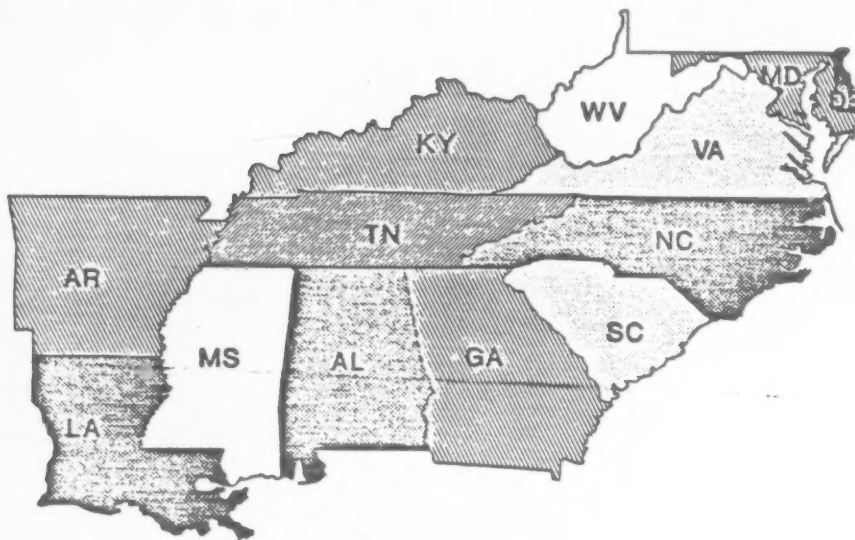
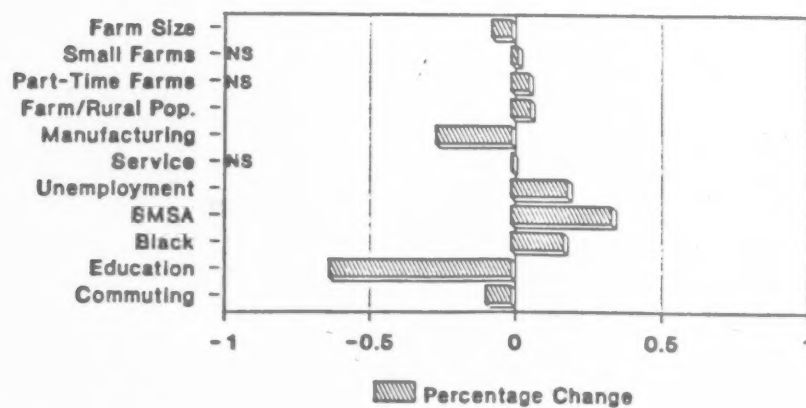


Figure 2a: Association Between Poverty and Independent Variables in 1970

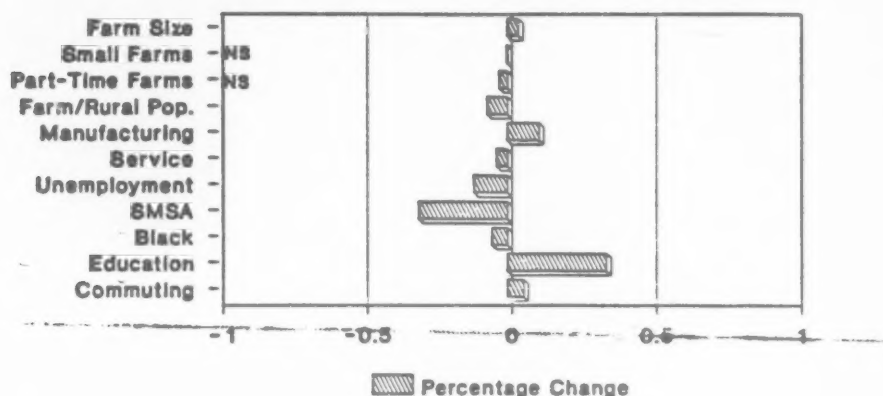


1969 for farm variables; 1970 for others

NS - Not Significant at the 10% Level

Explained Variance is 71% (R squared)

Figure 2b: Association Between Income and Independent Variables in 1970

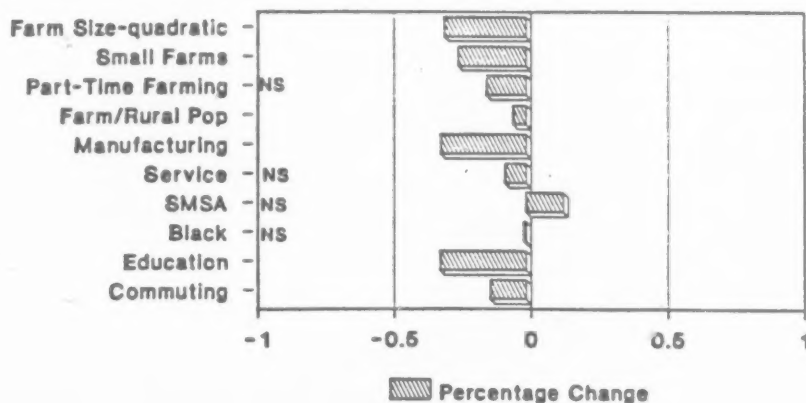


1969 for farm variables: 1970 for others

NS - Not Significant at the 10% Level

Explained Variance is 69% (R squared)

Figure 2c: Association Between Unemployment and Dependent Variables in 1970

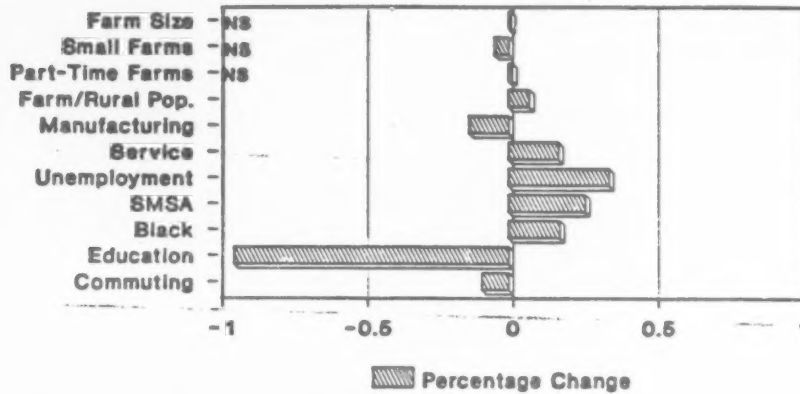


1969 for farm variables: 1970 for others

NS - Not Significant at the 10% Level

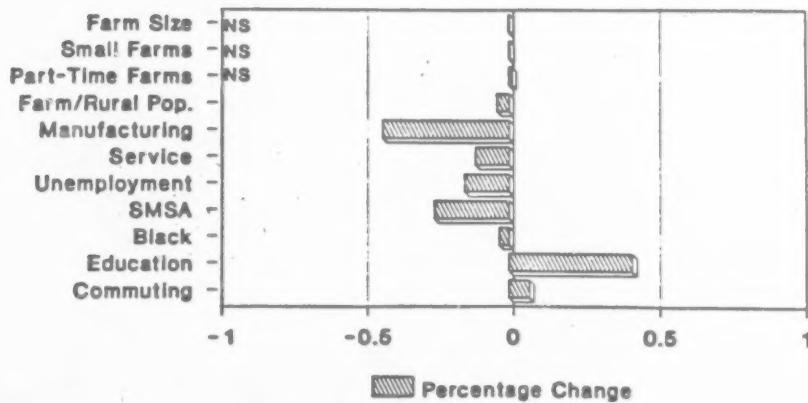
Explained Variance is 29% (R squared)

Figure 3a: Association Between Poverty and Independent Variables in 1980



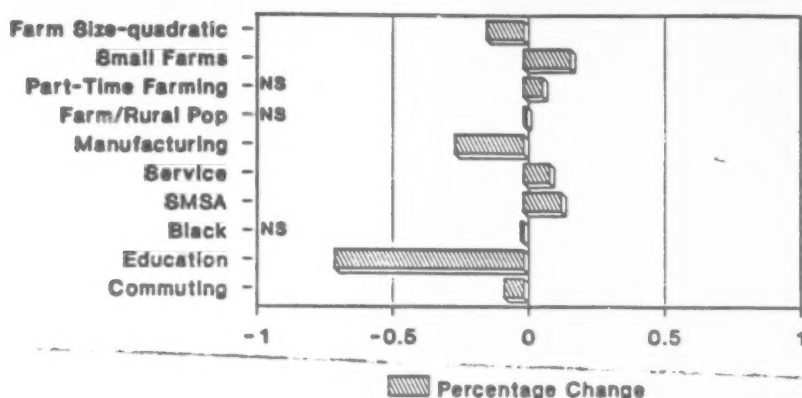
1978 for farm variables: 1980 for others
 NS - Not Significant at the 10% Level
 Explained Variance is 71% (R squared)

Figure 3b: Association Between Income and Independent Variables in 1980



1978 for farm variables: 1980 for others
 NS - Not Significant at the 10% Level
 Explained Variance is 61% (R squared)

Figure 3c: Association Between Unemployment and Dependent Variables in 1980



1978 for farm variables; 1980 for others

NS - Not Significant at the 10% Level

Explained Variance is 29% (R squared)

Figure 4: Quadratic Relationship Between Farm Size and Unemployment

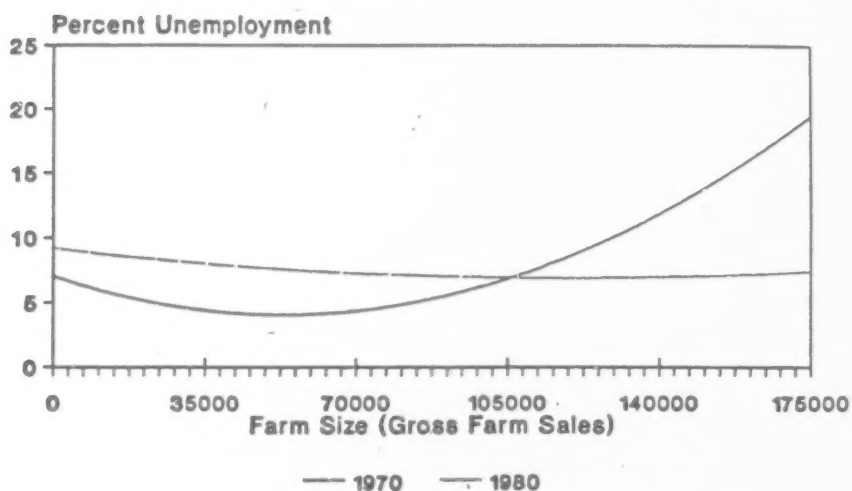
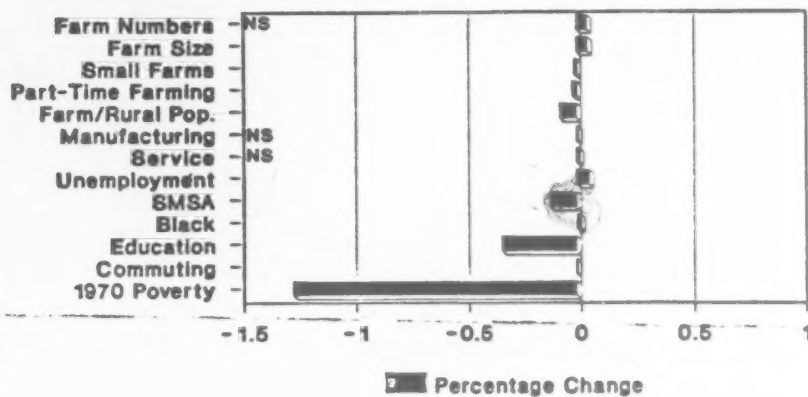


Fig. 5a: Associations of Poverty Change with Changes in Independent Variables

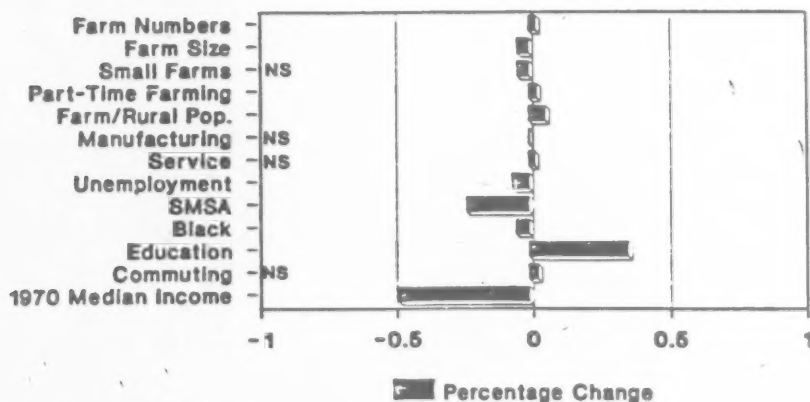


Change = 1980(78) - 1970(69)

NS - Not Significant at the 10% Level

Explained Variance is 70% (R squared)

Fig. 5b: Associations of Income Changes with Changes in Independent Variables

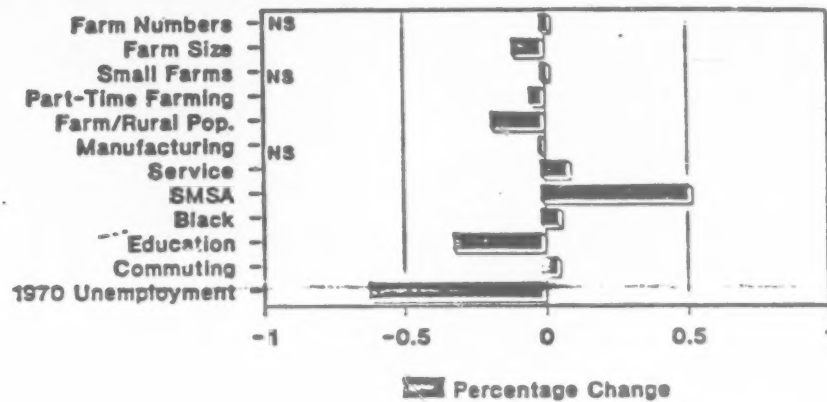


Change = 1980(78) - 1970(69)

NS - Not Significant at the 10% Level

Explained Variance is 24% (R squared)

Fig. 5c: Associations of Unemployment Changes with Changes in Independent Var.



Change = 1980(78) - 1970(69)

NS - Not Significant at the 10% Level

Explained Variance is 21% (R squared)

Figure 6: Non Metro Counties in the Study



Figure 7: Percent of County's Adult Population Finishing High School in 1980

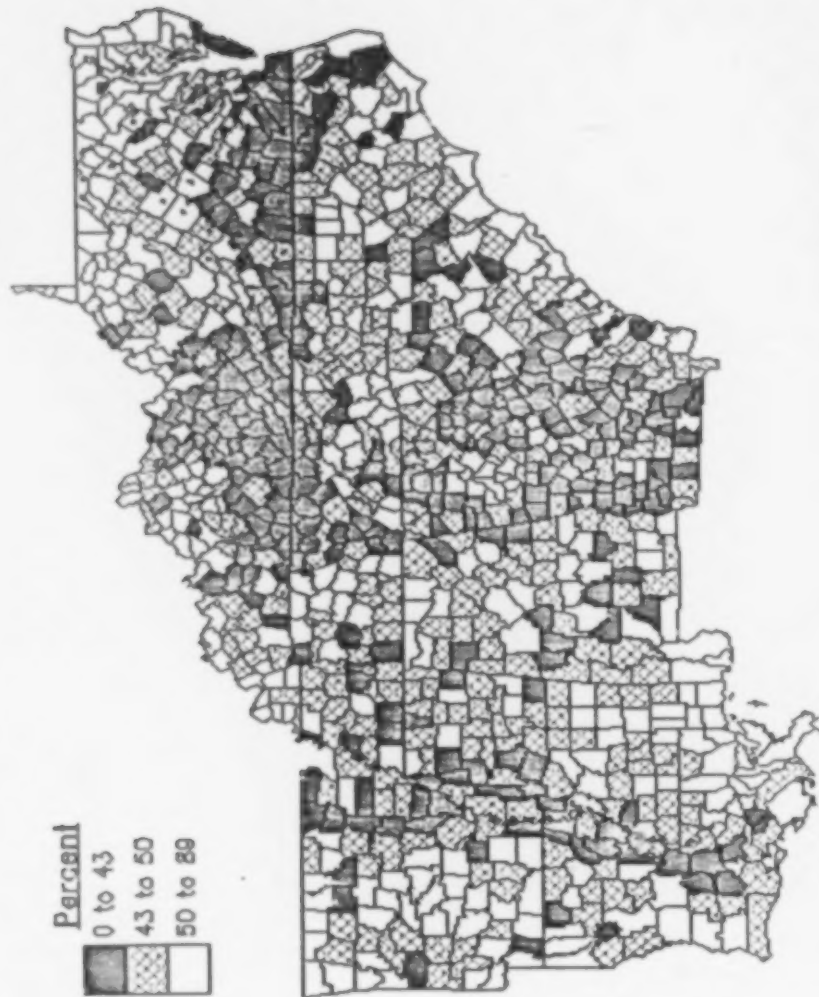


Figure 8: Percent of County's Population Living in Poverty in 1980



Figure 9: Median Family Income of Counties in 1980

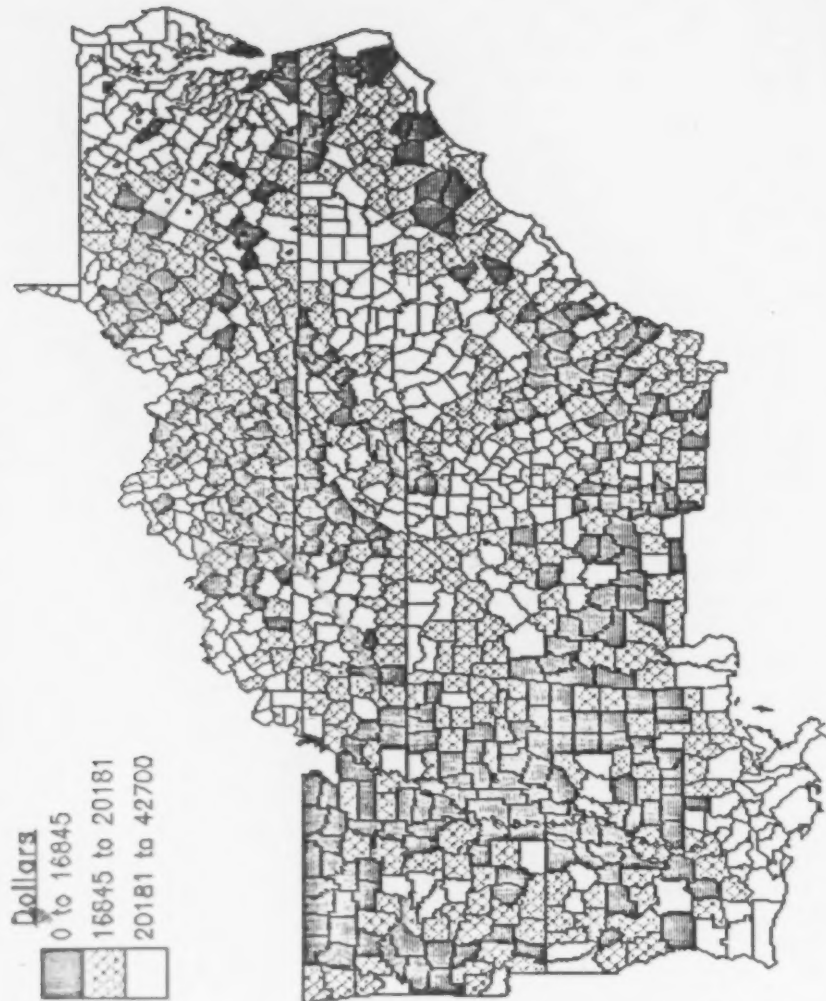
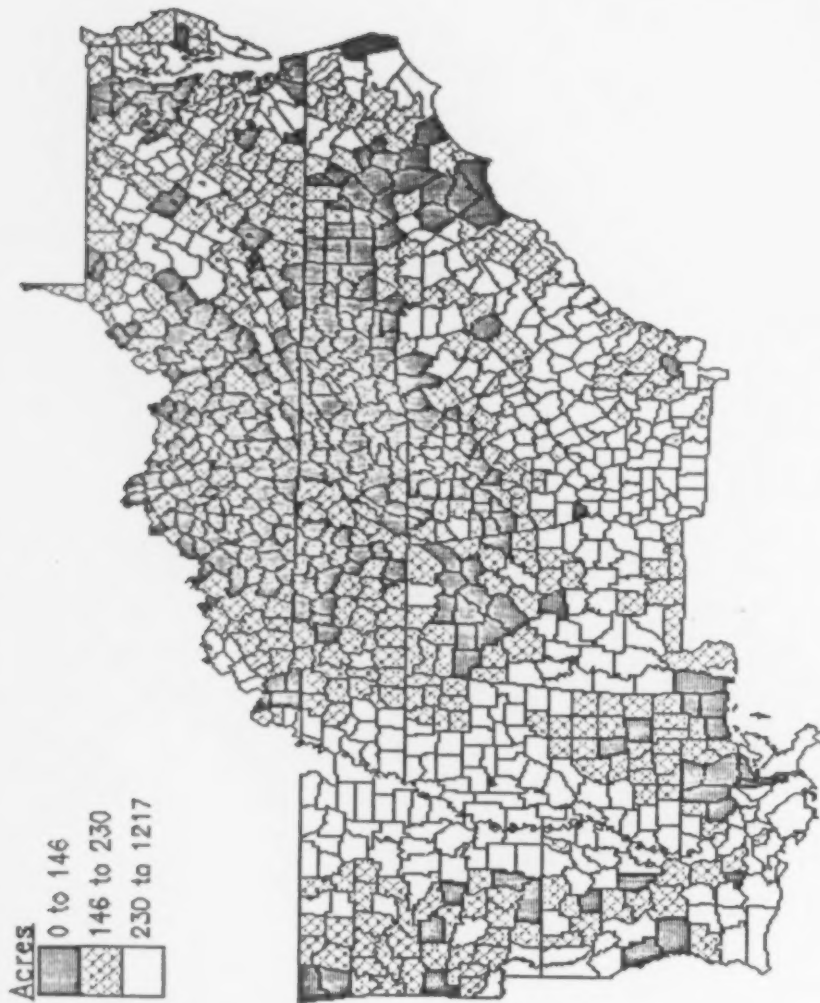


Figure 10: Percent of a County's Population Unemployed in 1980



Figure 11: Average Farm Size in Acres in 1978



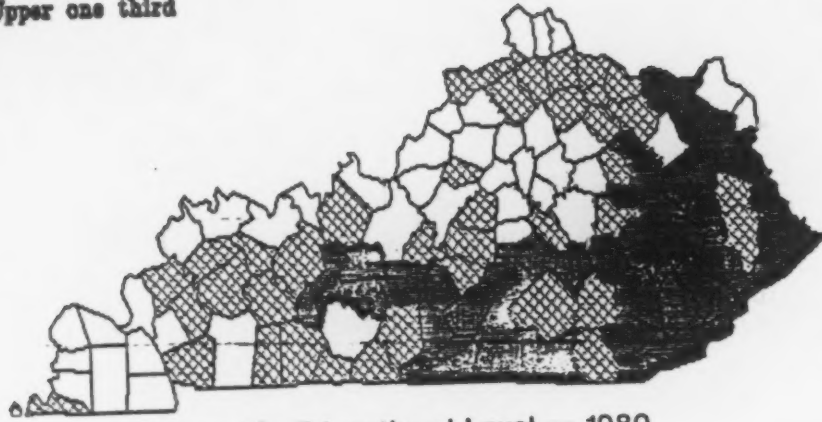
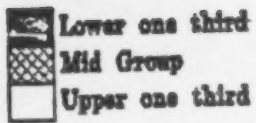


Figure 12: Educational Level -- 1980
Percent of Adults with 12 years or more

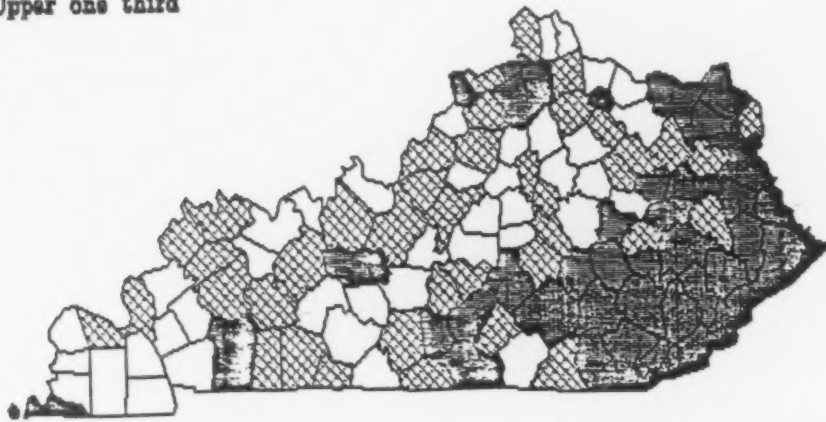
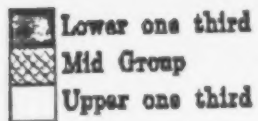


Figure 13: Educational Test Scores -1987

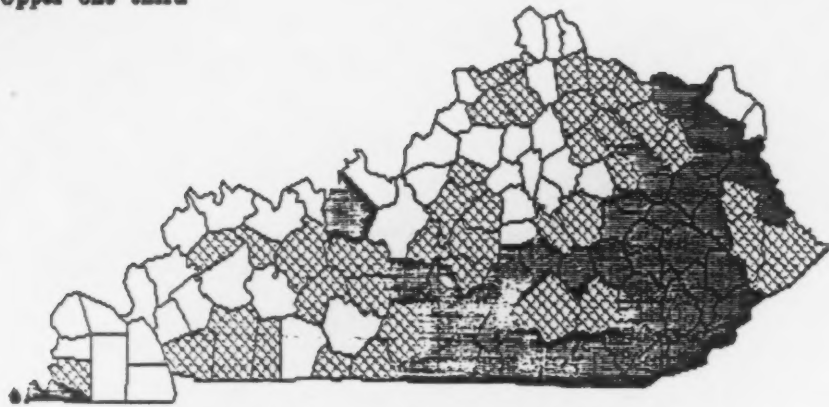
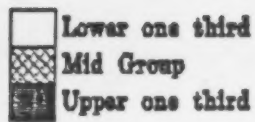


Figure 14: Poverty Level -- 1980
Percent of Population Below Poverty Level

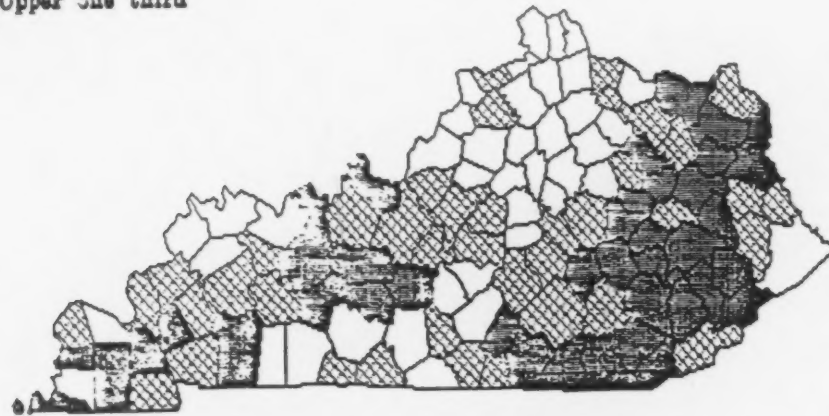
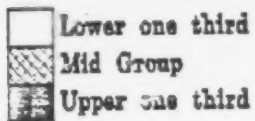


Figure 15: Unemployment Rate -- 1980
Percent of Population Unemployed

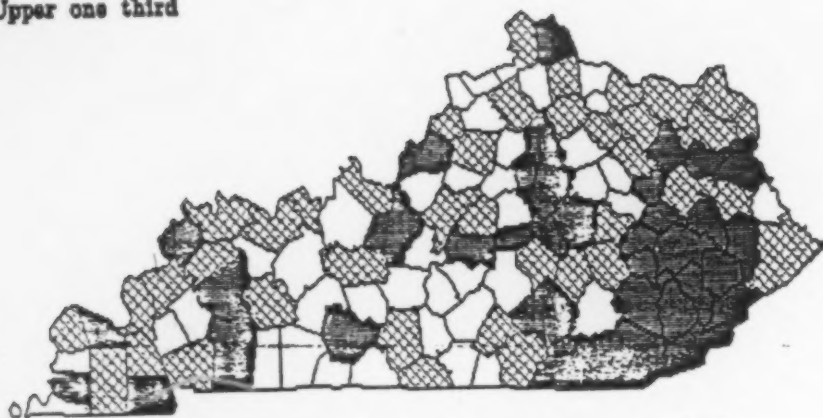
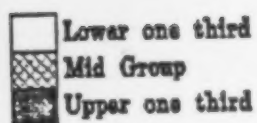


Figure 16: Service Sector Employment - 1980

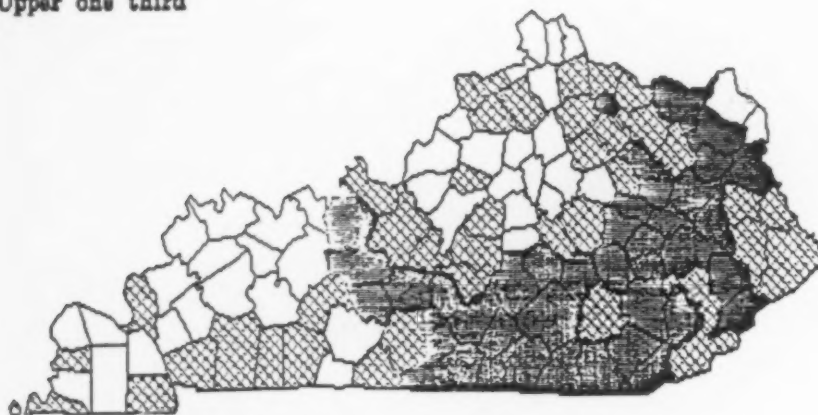
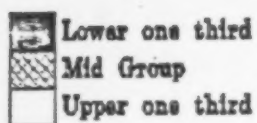


Figure 17: Median Family Income -- 1980

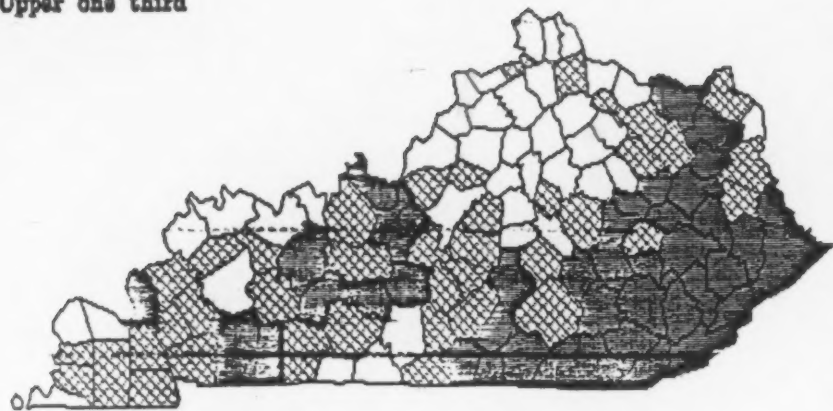
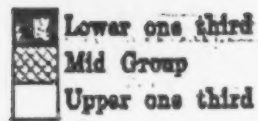


Figure 18: Per Capita Property Tax

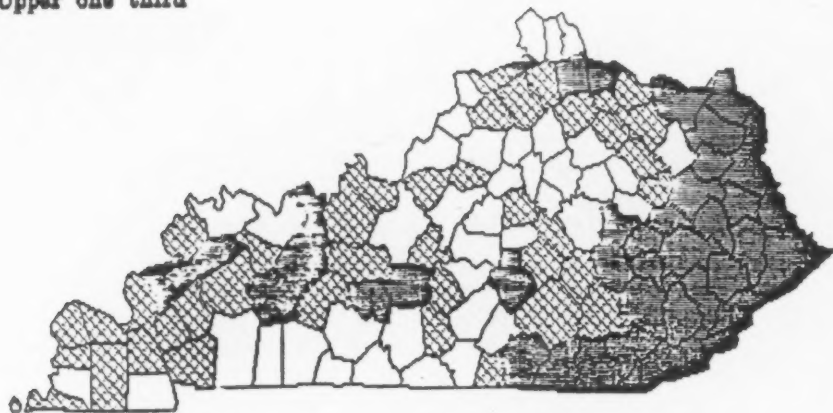
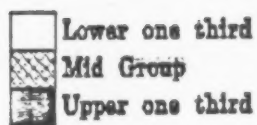


Figure 19: Discouraged Worker Rate -- 1986

THE STATISTICAL AND ANALYTICAL BASE FOR RURAL DEVELOPMENT POLICY

By Glenn L. Nelson ¹

Rural development policy is both enlightened and constrained by the statistical and analytical foundations underlying the understanding of rural problems. The estimates yielded by the statistical system offer insights when done well and are sorely missed—or worse yet, misleading—when inadequate. The analytical foundations are an indispensable means of organizing the myriad observations from organized statistical systems and from personal experience. At times, however, the analytical framework dissuades us from giving sufficient importance to observations that are not consistent with our conventional—but unfortunately erroneous—view of the world.

This paper argues that our knowledge of the problems and potentials of rural people could be improved in a cost-effective manner by making use of the newly available Survey of Income and Program Participation in combination with previously existing surveys.² The paper also argues that the recent emphasis on “supply side” development policies such as education and applied research should not be allowed to interfere with a balanced perspective on the origins of rural problems and the design of solutions.

DATA FOR SMALL AREAS ³

Bonnen has summarized well the problems with the database for small areas, and for rural areas in particular, in an earlier paper in this symposium. His paper demonstrates the critical importance of measures to improve the database for analysis of the problems of rural people and for the formulation and implementation of appropriate policies.

SYNTHETIC ESTIMATES

The combination of information from multiple surveys can produce estimates that no one survey can support with adequate precision (Platek, et al.). This technique, “synthetic estimation,”

¹ Visiting Scholar, Horace H. Rackham School of Graduate Studies and Center for Tax Policy Research, University of Michigan, Ann Arbor, while on leave from Professor, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul. Margaret Dewar provided helpful comments on an earlier draft.

The Northwest Area Foundation, St. Paul, Minnesota, provided financial support for this work.

² Others, including the Panel on Statistics for Rural Development Policy convened by the National Research Council, have previously discussed and endorsed this approach (Fuller and Batese; Gilford et al., pp. 181-182).

³ The presentations by Daniel Kasprzyk and Kirk Wolter at the workshop, “Social Science Research in the Experiment Station,” Arlington, Virginia, Jan. 25-27, 1988, were important in stimulating my ideas on the database. My recent conversations with Robert Hoppe, Cary Isaki, and Lynn Weidman were helpful in further developing these ideas.

begins with the identification of variables of interest that cannot be directly estimated for small areas but whose values are estimated for a larger area. Movement into and out of poverty, migration from one place to another, and movement into and out of public assistance programs are examples of such variables. The Survey of Income and Program Participation (SIPP) is a prime place to look for such variables.

SIPP is a combined longitudinal-cross-sectional survey of individuals. Monthly survey data have been collected at 4-month intervals since October 1983. The samples for the 1984, 1985, and 1986 panels consisted of the individuals residing in approximately 20,000, 14,500, and 12,100 households, respectively, at the time of the first interview. The declining sample size reflects increasingly binding budget constraints. The survey collects extensive data on income, employment, participation in public programs, and many other socioeconomic variables (Kasprzyk, for a brief description of SIPP with further references). The sample size is sufficient for much work at the national level and for some estimates at the State level but is insufficient for considerable work on subnational nonmetropolitan regions.

The Panel Study of Income Dynamics (PSID) maintained by the Survey Research Center of the University of Michigan is another important sample that may be a useful source for information on key variables. The PSID is a combined longitudinal-cross-sectional annual survey begun in 1968 of about 5,000 families (Duncan and Morgan).

The next step in the creation of synthetic estimates is to build a model, using findings from the social sciences and survey data for the larger area. The model consists of relationships believed to be stable between the variables of interest and other variables—"auxiliary variables"—that are available for the larger area and also available for the smaller area of interest. In looking for auxiliary variables, the Current Population Survey (CPS) should be a prime candidate—as also noted by others (Gilford, et al., p. 185). Its subject matter overlaps with that of SIPP which is important because the auxiliary variables must be found in both samples. CPS is a much larger sample, including approximately 59,500 households each month (Ryscavage and Feldman-Harkins). This sample size is sufficiently large to yield direct estimates of monthly labor force, employment, and unemployment in the 11 largest States and in two large metropolitan areas and of the annual averages for the corresponding variables in the other 39 States (Cronkhite). The CPS has the potential to yield estimates for much smaller areas than SIPP, but the CPS has less detail than SIPP in several topical areas.

Other sources, such as the Census of Population and administrative records, should also be explored for useful auxiliary variables. The Internal Revenue Service, Social Security Administration, and Department of Health and Human Services are examples of agencies whose administrative records might shed light on the social and economic conditions in smaller areas.

Once the model is in hand, relevant values from the larger sample—for example, CPS—are substituted into the auxiliary variables to generate estimates for the smaller area of interest. The

precision of these estimates depends critically upon the sampling design of SIPP, the validity of the model, the sampling design of CPS, and the correspondence between the definitions of the auxiliary variables in SIPP and CPS. The cooperation of statisticians and social scientists would be essential to the success of the efforts.

Because errors inevitably occur in computing synthetic estimates, the final phase of the estimation process should be an evaluation of the quality of the estimates (Kalton). If financially feasible, the evaluation should include special sampling of selected smaller areas to allow direct statistical estimates of adequate precision to be computed for these selected areas. A comparison of the synthetic and direct estimates would yield information on the bias and variability of the synthetic estimates. In some cases administrative records would probably be useful in the evaluation. For example, the total number of households receiving food stamps inferred from the synthetic estimates could be compared with the total number based on administrative records. Other general strategies for evaluation would become apparent with further study. The synthetic estimates should be used only if they meet reasonable standards of precision, and users should be warned of the estimated statistical errors based upon the estimation techniques and the results of the evaluation.

AUGMENTED RURAL SAMPLE

Increasing the size of the underlying samples used in computing synthetic estimates increases the precision of the estimates. Augmenting the rural portion of either SIPP or CPS would enable improved estimates for rural regions. An augmentation of the rural portion of the SIPP would, however, yield the greatest benefits.⁴ First, the augmentation would enable direct estimation of some variables at the national level that cannot be estimated with adequate precision with the current sample, for example, poverty rates among smaller subgroups of the rural population. Second, the augmentation would increase the number of observations available in the modeling phase and thereby increase the precision of the model. Third, the augmentation could be used to evaluate the validity of the work done on the core SIPP sample. This might be an especially natural use if the modeling takes place before the implementation of the augmentation, which seems probable in view of the time required for the latter. After being used initially for evaluation, the augmentation would then be available for use in reestimating the parameters of the model.

In early 1988 Kasprzyk indicated the cost of an additional SIPP interview was about \$100. A series of three interviews to accumulate 1 year's data on one individual would cost about \$300. Thus, the rural sample could be expanded by about 3,000 individuals or less for an annual outlay of \$1 million or less. While a large expenditure in absolute terms, the figure is miniscule relative to the Federal programs focused on rural people. Such an investment in our knowledge base is a small price to pay for better information

⁴ The Panel of Statistics for Rural Development Policy convened by the National Research Council supported an expansion of the rural portion of SIPP (Gilford, et al., pp. 183-184).

on a large group of people with problems that are not well understood. This figure does not include resources for design of the augmentation or for analysis of the results.

ANALYTICAL FRAMEWORK

As noted at the outset, the views of analysts and policymakers are shaped by their analytic frameworks as well as by the available statistical information. While the explicit and implicit assumptions in these frameworks are useful in organizing our thoughts on the many factors affecting income and employment, these assumptions also introduce errors in thinking and policy formulation to the degree reality differs from the assumptions.

BACKGROUND

In the late 1960's and 1970's many analysts of regional and local economies, including those studying rural development, emphasized "demand side" factors. In formal models these factors consist, for example, of private sector demand originating outside the local economy and of income injections through public sector purchases (especially defense-related procurement) and transfers (such as Social Security). The indirect as well as direct effects of changes in these factors are estimated by use of multiplier relationships between basic and nonbasic sectors. Glickman's "Methods of Regional Economic Analysis" published in 1977 is a prominent example reflecting this approach (Glickman, ch. II). This emphasis grew in major part from the popularity of Keynesian models among macro-economists studying national economies. In applied analyses the emphasis on demand led too much attention to the attraction of firms that would contribute to the "export base" of the local community, to the attraction of people and businesses who would in turn attract public funds, and to the size of the multiplier that related service sector to basic sector spending (Fernstrom, for example).

In the 1980's we have observed the growing popularity of "supply side" constructs and fading attention to the demand side. Supply side factors include, for example, investments in people to make them more productive, reductions in taxes to increase the incentive to work, and investments in applied research and technology to make resources as well as people more productive. This shift is at least partly due to the ascendancy of supply side people in positions of national political leadership in Washington. The shift in leadership on regional and rural development from Washington to the States is also partly responsible. The Federal Government can do much to manage demand at the local level. State governments, on the other hand, have provided leadership in education and in applied research to improve the productivity of State resources.

SYNTHESIS ⁵

A synthesis of these two perspectives is more desirable than a conflict that denies or at best ignores the importance of either the

⁵ Joan Fulton, graduate research assistant in agricultural and applied economics at the University of Minnesota, was heavily involved in the creation of the analytic framework underlying this section; a jointly authored, more detailed paper is in preparation.

demand or supply side. A brief summary of the elements of such a synthesis is a useful reminder of the joint importance of both sets of factors.

The output and price level of a sector in a regional economy is a function of the demand and the supply in that region. If the sector neither exports nor imports its output, only local demand and supply are relevant. Local demand varies inversely with local price and positively with local income. Local supply reflects the availability and productivity of local people, natural resources, capital, and institutions; supply is positively related to local price and to investments which increase the productivity of local resources. Policies aimed at increasing local output and employment can focus on increasing local demand, increasing local supply, or simultaneously increasing both.

Most sectors trade with the economies of other regions. Other regions have their own demand and supply functions which have the same form as those outlined in the above paragraph. Shifts in *either* demand or supply in the rest of the world change the potential market for exporting sectors and change the intensity of outside competition for importing sectors. Thus, the fortunes of most sectors in most regions depend not only on local demand and supply conditions but also on demand and supply conditions in many other regions. Policies aimed at increasing output and employment in a particular region can focus on changing its relationships with other regions as well as on changing local conditions.

RECENT EVENTS, WITH EMPHASIS ON THE MIDWEST

In the early 1980's forces originating primarily on the demand side battered the rural Midwest.⁶ Foreign demand for agricultural products grew little as rates of growth outside the United States slowed after the 1960's and 1970's (Council of Economic Advisers, p. 374). The rising value of the dollar made U.S. products more expensive and contributed to the decline in foreign demand (Council of Economic Advisers, P 371). Foreign supply increased in many cases because of the adoption of new technologies and the reform of institutions.

The result was a marked decrease in total demand in many rural economies, leading in turn to lower outputs and depressed prices and finally to lower regional income and regional demand with further depressing effects on regional output and employment. The agricultural and manufacturing sectors were especially hard hit. These negative factors were partially offset by unprecedented Federal income transfers to farmers which constrained somewhat the deterioration in regional demand. Recently, the falling foreign exchange value of the dollar has led to a resurgence of foreign demand for U.S. exports and a welcome strengthening of total demand in many rural economies.

⁶ The macroeconomic conditions summarized here are discussed in more detail in the paper by Tom Hady prepared for this symposium.

IMPLICATIONS

Important observations relevant to the understanding and formulation of rural development policy grow out of this discussion of recent events and a synthesis of supply and demand factors. Macroeconomic policies have contributed greatly to the recent problems of people in rural areas. The macroeconomic policies of the late 1970's and the 1980's placed a disproportionately heavy burden on sectors that trade internationally. Agriculture and manufacturing are traded internationally and are also disproportionately important to rural regions. Within manufacturing, the more routine jobs are especially overrepresented in rural regions and particularly vulnerable to competition from foreign low-wage manufacturing (Bloomquist, McGranahan). Rural people have a major stake in the orderly reduction of the trade deficit through a reduction in the Federal budget deficit and the decline of the dollar in foreign exchange markets.

Shocks from the demand side are usually more important than supply side changes in explaining short-term shifts in output and employment. Policies focused on supply side factors cannot damp to any large degree the abrupt shocks originating from the demand side.

While short-term shifts in output and employment are usually dominated by changes in the demand side, the long-term prospects for a regional economy are critically dependent on its productivity relative to other regions, that is, on supply side factors. The time-lags between investments, such as education and research, that lead to greater productivity and the payoffs from these investments are often substantial. Making these investments a function of the short-term state of an economy is likely to have little or no impact on short-term fluctuations and is likely to lead to an inefficient use of the resources devoted to these investments.

While the difficulties of rural economies in recent years have raised the visibility of their problems and created greater potential for political action, the case for supply side investments in rural people and rural resources is much the same as it was 10 years ago. Furthermore, the case is likely to be much the same 5 years from now—even if stronger total demand for the output of rural economies allays the current crisis atmosphere. In other words, while policymakers should not hesitate to take advantage of the current atmosphere to make needed progress on supply side investments, they should strive to do so in a manner that leads to long-term programs rather than short-term "brush fire fighting."

Finally, the short-term problems of regional economies often warrant a response for economic or political reasons. Rapid injections of purchasing power through government transfers are appropriate measures for achieving short-term results. These measures should be regarded, however, as holding actions that merely give additional time before the regional economy must adjust to a new environment that is in part created by the deliberate policies of government and in part created by the multitude of private actions influenced little or not at all by governments.

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III. PANEL ON WHAT ROLE CAN PRIVATE INSTITUTIONS PLAY IN THE RURAL DEVELOPMENT PROCESS?

Members of the third panel were asked to identify and evaluate some of the new players in the rural development game. These include private sector institutions, both for-profit and non-profit, as well as new hybrid public-private institutions. Phil Burgess, of U.S. West, focused on private business and nonprofit organizations as catalysts in the development of civic leadership coalitions. Doug Shumavon reviewed the work of certain nonprofit agencies used in the delivery of human services in Ohio. Peter Fisher addressed the issue of small business in rural areas, and especially the issue of how to make venture capital available to these businesses. Two discussants, Ron Cotterill from the University of Connecticut and Tom Johnson from Virginia Tech, commented on the papers.

Cotterill identified two competing ideas regarding the nature of the rural development problem, and especially the problem of rural poverty. One idea is that the problem is fundamentally motivational in nature. The other is that the problem is fundamentally structural in nature. Proponents of the motivational theory tend to think that what the government needs to do is provide hope for people, possibly get off their backs, possibly revitalize the private sector, and possibly instill self-reliance in people that have forgotten the meaning of the term. The structural theory, on the other hand, involves recognizing physical and human resource constraints, the idea that prices are out of whack, and the organization of economic activity—including nonprofit agencies, public venture capital firms, and cooperatives to fill gaps in performance left by investor owned firms.

Cotterill suggested that public policy meant to foster a role for private institutions in rural development must address the rules of the game (through regional planning, zoning, Federal Trade Commission and Environmental Protection Agency regulations, for example). He recommends a multiple institutional thrust that would include venture capital institutions, nonprofit organizations, cooperatives, the National Cooperative Bank, the Farm Credit System, and the rural electric cooperatives, among others, Cotterill has found virtually no research on interaction among these institutions and on joint public-private efforts.

Cotterill noted that cooperatives of many types—agricultural, rural electric and telephone, wholesale grocery, and consumer cooperatives—have been a major component in market-oriented public policies to promote effective distribution of goods and services to rural America. More recent institutional innovations that enhance private initiatives are public venture capital funds and nonprofit agencies. Research on rural distribution channels and the appropriate mix of private and public initiatives should, according to

Cottérill, be a major component of any new rural development policy.

Johnson wrote a paper on "The Role of Entrepreneurship in Rural Economic Development," which is printed in this chapter. He also made several comments on Fisher's paper, the only one that he had received in advance. He disagrees with Fisher's pessimism regarding the potential of small business. He argues that small businesses do not fail nearly as often as statistics would suggest; instead, many small firms grow until they change into something else. The changed business may disappear from the database because it no longer is a small business, not because it has failed. He also commented that the fact that transaction costs for entrepreneurial businesses in rural areas are high should not be used as a justification for giving up on that kind of business development. Instead, he maintains it is commonly accepted that it's the government's role to reduce transaction costs where it makes economic sense.

BOOTSTRAPS AND GRASSROOTS: THE ROLE OF PRIVATE INSTITUTIONS IN RURAL ECONOMIC DEVELOPMENT

By Philip M. Burgess ¹

I am here today representing the Center for the New West, a public-private partnership for economic development in the Western States where, as a loaned executive from U S WEST,² I serve as president. I appreciate the opportunity to participate in this symposium. My remarks are based on nearly 15 years' experience working in the western U.S.A.—first as executive director of the Federation of Rocky Mountain States (FRMS), a public-private coalition devoted to economic development; later as executive director of the Western Governors' Policy Office (WESTPO)—an organization of 13 western governors organized during the energy boom years; and 19 years as a university professor—including 7 years at the University of Colorado and the Colorado School of Mines where I taught management and resource economics; and during the past year and a half as an employee of U S WEST and as director of the Center for the New West, a nonprofit organization devoted to economic development in the western region of the U.S.A.

I especially appreciate the concern for new institutional arrangements that are required to heighten the prospects for economic development in rural America. Prosperity in rural America is a major concern of U S WEST and finding ways to achieve it is one of the principal missions of the Center for the New West.

Our concern for the rural West arises, in part, out of our responsibility as a good corporate citizen. Corporate social responsibility leads us to support initiatives that will enhance economic prosperity and expanded opportunity in our society and in our service area. As our chairman, Jack MacAllister, has said many times in reference to our substantial corporate commitments to improving the lot of the homeless, strengthening education, and promoting economic development, "We cannot expect our free society to survive and prosper if growing numbers of people have nothing to lose, little to gain, and few opportunities."

However, we are also motivated by bottom line concerns. By that I mean, our company's prosperity depends, in some considerable measure, on the good fortune of the western region it serves—including 14 States, 737 counties, and nearly one-third the land area of the continental U.S.A. Unlike many other companies located in the West, whose primary markets are national and even global, U S WEST cannot prosper unless the West prospers. We are an expression of our geography. The West is our territory and its people

¹ Center for the New West/U S WEST, Inc. Denver, Colorado, and Washington, D.C.

² U S WEST Inc. is a Denver based Fortune 50 telecommunications company where the author serves as executive director and special assistant to the chairman.

our primary customers. That's where we get the lion's share of our revenues. As more and more reports on our company begin with the phrase, "Despite the lackluster economic performance of the region. . .," we are increasingly mindful of our stake in the improved economic well-being of our 14-State region.

So the high priority we give to the economic development of rural America and our commitment to jobs, growth, and productivity in the American West reflect both our corporate social responsibility concerns and our hard core business interests:

That is why we invest in capacity building initiatives, such as the Center for the New West—because we benefit if we can help State and local governments and private sector leaders, including those in our own company, do a better job at promoting economic growth, new jobs, and higher productivity in our own region.

That is why we invest in education—because we believe that investments in education today will shape the economic future of our region and its quality of life for decades to come.

That is why we invest in new infrastructure, and especially technologies to bring high quality telephone services to rural areas at "city prices"; as we are now exploring in a demonstration program planned for Deming, New Mexico, where we have developed a radio telephone technology to reduce by nearly tenfold the cost of hooking up telephone services to rural areas.

Let me share with you how we see some of the issues you are addressing in this symposium.

A. MAJOR PROBLEMS IN RURAL AMERICA

The problems of rural America are well documented. There is a demographic problem: people are moving out. We find sluggish, indeed, often negative, economic growth. Many rural industries are weak—particularly banks, mining, energy, and agriculture-related businesses. There are fewer and fewer jobs in many areas. In fact, in the mining industry alone, an 11-State region in the West has lost more than 321,000 jobs since 1980—though mining companies with under 100 employees have grown nearly 5,000 new jobs during that same period. These and other findings suggest that the entrepreneurial forces that we see in the new economy also operate in more traditional sectors of the old economy.

Consider, by contrast, the forest products industry, where economic revitalization and resurgence has been accompanied by a continuing decline in jobs—reflecting significant productivity increases. So, even the economic revitalization of an industry may leave significant employment and community problems in its wake. As a result, in too many places in the rural West there are fewer opportunities for people and families. Hence, the outmigration, which is especially a problem because the young people are generally the first to go.

The rural West has been particularly hard hit by the cycles of boom and bust which have characterized the commodity-based economies of the West since the 19th century. The boom of the 1970's, like all the others before, resulted primarily from externally

stimulated growth fueled by rising global prices for energy, minerals, and agricultural commodities and expanded Federal spending in the region—and not by internally generated, homegrown, high value-added economic development.

With the bust of the 1980's, we see the rise of two economies in the West. One is a rural, declining economy based primarily on resource industries such as agriculture, timber, mining, and energy. On the other hand, there is a more healthy and diversified yet, in many places, still struggling urban economy based on Federal spending (for military bases, Federal field agencies, Federal labs and other R&D installations), technology-based industries (new materials, electronics, aerospace, biotechnology, computers, etc.), and service industries (especially financial services, engineering, tourism, and telecommunications).

B. THE IMPACT OF STRUCTURAL CHANGE

If the problems of rural America are well documented, the causes of the problems in rural America are less well understood. Some view the current situation as just another cyclical downturn. "Just hold on. Things will come back again," this school of thought says. Others view the changes in rural America—and especially in the rural West—more in terms of structural changes. From this point of view, our problems are more than just a down tick in a business or commodity cycle. Rather, people taking this perspective point to widespread changes in the structure of supply and demand for many of the products of the western economy:

The changing structure of agricultural export markets as a result of the Green Revolution and other innovations in the technology and practice of growing things—with countries such as China and India now exporting food.

The changing structure of supply for mineral products (copper, lead, zinc, molybdenum, etc.)—as recycling and new technologies of discovery and processing are giving us more and more product in areas where only a few years ago we were told we were running out.

The changing structure of demand—as the downsizing of homes and automobiles and the substitution of new materials (such as fiber optic for copper lines) uses fewer units of materials traditionally produced in the rural areas of the West.

Though cyclical forces are clearly at work in the western rural economy, I believe we will be further ahead if we work from the premise that many of these traditional industries are not likely to come back to their original form. What we are witnessing, in other words, is broad-based structural change in many of the industries that form the backbone of the rural West. As a consequence, we need to focus our attention and resources on how to make it in the new economy and not sit and wait for the old economy to come back. Nor are we likely to benefit from public policies—such as protectionism, industry bailouts, etc.—that resist the transition to the new economy.

Others see the problems of rural America less in terms of broad economic forces and more in terms of the assets and liabilities, the balance sheet, of these areas. There are, to be sure, many liabil-

ities. For example, many areas of the rural West lack access to capital and transportation. Both supplies and markets are often hard to reach. Very few have a business culture that includes high growth industries.

On the other hand, there are many assets in rural America. These include skilled and adaptable work force. Who, after all, has a broader range of technical and management skills than a modern farmer? Rural America has a strong work ethic, where people give 8 hours of high quality work for 8 hours pay. High quality workmanship and pride in work are key ingredients of success in the new economy.

Rural America has lower operating costs than many larger urban areas. Rural America generally has clean air and spaces and many parts of rural America have good market systems. These are the qualities of life that many high growth companies are looking for today as a way to attract and retain highly skilled workers. In short, not all the trends in rural America are on the liability side of the ledger. Rural America can make it in the new economy as we learn to be more productive and adaptive to changing markets and changing technologies.

C. MYTHS ABOUT RURAL AMERICA

However, to make progress it is important to dispell some of the prevailing myths about rural America. There are at least three myths to start with:

MYTH 1. RURAL AMERICA MEANS AGRICULTURE AND FARMING

The fact is that more than 60 percent of the income in rural America comes from nonfarm sources.

Indeed, rural America also includes ranching, mining, timber, light manufacturing, small business, tourism and many other economic activities, as shown in Figure 1.

Figure 1: MANUFACTURING DOMINATES RURAL ECONOMY ¹

County type and number	Population		Personal income	
	Millions	Percent	Billions of dollars	Percent
All counties (3067).....	232.882	100.00	2971.52	100.00
Metro (626).....	168.302	72.27	2309.58	77.72
Nonmetro (2441).....	64.580	27.73	661.94	22.28
- Manufacturing (618).....	23.401	36.23	240.76	36.37
Mining (176).....	3.918	6.07	38.01	5.74
Farm (602).....	7.407	11.47	77.57	11.72
Retirement (222).....	7.316	11.33	76.97	11.63
Government (239).....	8.329	12.90	84.26	12.73
Mixed (128).....	1.896	2.94	17.75	2.68
Trade (370).....	10.571	16.37	110.75	16.73
Other (86).....	1.742	2.70	15.87	2.40

¹ Drawn from Mark Henry, Mark Drabenstott and Lynn Gibson. "Rural Growth Slows Down" in Rural Development Perspectives, June 1987, pp. 25-30.

MYTH 2. ALL RURAL AREAS ARE ALIKE

The fact is that rural areas differ widely in size, population composition, economic base, institutional infrastructure, and local capacity.

As a recent study by the National Governors' Association (NGA) shows, even among high growth rural counties there are many different types—including diversified growth counties, boom and bust counties dependent on resource recovery, construction counties, metro overspill counties, and counties that prosper from the expansion of recreation and retirement activities.

MYTH 3. ALL WE NEED ARE MORE STATE OR FEDERAL PROGRAMS

In fact, an important answer may be found in achieving more effective coordination and strategic use of existing resources—as the leadership in New Mexico was able to do with a bus manufacturing enterprise now located on abandoned facilities at Roswell Air Force Base; as Russ Youmans at Oregon State has been able to do with the Western Regional Development Center (WRDC). There are many other similar examples.

What we really need is a clear cut commitment by government and business to work together to revitalize rural America.

We also need to give attention to community capacity building and especially to strengthening the civic leadership capacity of local civic and governmental organizations and voluntary associations.

D. INSTITUTIONAL RESPONSES TO RURAL AMERICA

Making it work for rural America in the new economy will require leadership at every level of government and in the private sector to work together, to rationalize and streamline existing programs, to create new consolidated programs, and to give high priority to the institutional mechanisms that will facilitate this process.

The problems confronting rural America are immediate, the pain is real, and the solutions will not be found in an off-the-shelf formula. Rather, we must start with some presumptions, move to conclusions and tie them together with some ideas for innovations in policy and management that can make things work in rural America.

We start with the presumption that America is experiencing its own economic restructuring. This process of restructuring, which is going on in Japan, the Soviet Union, the EC countries, and elsewhere in the industrialized world, is a painful but necessary part of our nation's and our region's continued economic survival and prosperity in the emerging global economy. Restructuring is affecting different regions and different sectors differently. The rural economy and especially the rural economy in the West has been very hard hit.

As the rural West struggles to get back on its feet, it is necessary to remember that we are talking about a large and diverse area:

The economic base of the rural West varies widely from place to place. It is not just agriculture. It is also ranching,

mining, timber, light manufacturing, small business, tourism and other industries; and

The rural West is highly diverse and richly textured. It is remarkable that regardless of how you assess a rural area—whether by size or infrastructure or ethnicity or culture or institutional capacity—you find differences that are at least as important as the similarities. This can only give pause to those who would impose uniform and standardized solutions.

Accordingly, innovations in policy and management by the different levels of government and by the private sector must, above all, take account of this diversity. This means that a very high priority must be given to institutional innovations.

We also need to give attention to institutional issues so we can take full advantage of the many resources that are already available—and so that new resources can be created. For example, we have a tremendous range of resources available to us—local talent and leadership; Federal and State as well as local and other governmental programs; and the institutional resources of the region's business community, its universities, the State extension services, and others.

The problem is we are not very good at making all these parts work together. The government's mission agencies—at every level of government—tend to focus on narrow functional concerns. That is natural and to be expected, but this tends to result in a fragmented approach to problems that have many parts: financial, communications, transportation, management, marketing, and others. Political and community leaders tend to focus on their constituencies—again a natural thing to do but this often gives us a balkanized approach to things.

What we need are settings or forums where civic leaders—i.e., elected officials; leaders of labor, education, and business; and leaders from the voluntary sector—can raise issues, identify problems, explore solutions, and resolve differences of views. In a word, we need a way to achieve integration. We also need to make sure these forums have some technical backup to provide information, research and analysis to support problem solving and to help ensure that interventions are knowledge based. Finally, forums need access to “venture” capital; i.e., some risk-taking money from government or corporate philanthropy or other sources to do things not tied to missions, or programs, or other routine concerns.

At the turn of the century in America, we called these kinds of things “civic leadership coalitions.” They worked. We need to reinvent them—on a local as well as a multistate regional basis. We need new civic leadership coalitions because the job of economic revitalization while doable, will require tough choices, intergovernmental and public-private collaboration, and the mobilization and targeting of talent and other limited resources. This is what I mean by the need to address the institutional problem.

At the Federal level, it is clear that there are many Federal programs that have worked to support grassroots leadership. Studies by the National Governors' Association (NGA), the National Association of Counties (NACo), the Western Governors' Association (WGA) and others coupled with our own observations point to the value of many Federal programs. These include:

Community Development Block Grants (CDBG), which have been used extensively to finance the construction of infrastructure that supports economic development—especially water and sewer systems, roads and streets.

Small, rural communities have also used Urban Development Action Grants (UDAG's) to extend the reach of water systems and other infrastructure.

Grants from the Economic Development Administration (EDA) have also provided a major planning, management, and financial resource for the development of rural areas in America.

The Job Training Partnership Act (JTPA) has been used with some imagination in combination with other Federal programs to increase the capacity of rural workers to take advantage of new employment opportunities.

The Agricultural Extension Service, one of the most successful institutional inventions of American public policy, has been a major positive force in building the productivity of agricultural America. In the future, the Extension Service—or a separate and independent Rural Development Service—might be oriented more to rural America than simply to the problems of the farm culture. With such a reorientation, it could become a major force in helping rural areas to strengthen the indigenous leadership required to take charge of their transition to the new economy. The extension programs of the University of Wisconsin and Oregon State University already stand as powerful statements of the economic development potential of this tried and tested, already-in-place, institutional resource.

Industrial Revenue Bonds (IRB's) and other financial incentives to foster local infrastructure development have been centerpieces of many rural development efforts. Notwithstanding well-publicized abuses, IRB's have been an important and positive force in providing the bootstraps needed to foster new economic activity.

So, as we move to consider new initiatives, we should take a careful account of what we have and how it is working. We should guard against throwing out the baby with the bath water—as we did, on a bipartisan basis, when President Carter initiated and President Reagan finished off the job of eliminating the regional commissions for economic development. In the West, we had four active commissions: the Four Corners Regional Commission (including Utah, Colorado, New Mexico, Arizona, and Nevada), the Old West Regional Commission (including the Dakotas, Nebraska, Wyoming, and Montana), the Pacific Northwest Regional Commission (including Washington, Oregon, and Idaho), and the Southwest Border Commission (including California, Arizona, New Mexico, and Texas).

While these commissions were often spotlighted for pork barrel projects—and sometimes with justification—their more important function was almost always overlooked: the regional commissions—with a Federal cochairman appointed by the President and confirmed by the Senate—provided an important forum for Federal-State negotiations, so that Federal programs could be tailored to the specific situations and needs of the States in each commission.

Think of how useful such a mechanism could be today—along the U.S.A.-Mexican border, for instance to help sort out Federal and State responsibilities as we restructure Federal domestic programs for urban and rural areas or deal with the problem of illegal immigration.

Finally, we need to recognize that we have learned a lot in recent years about the dynamics of economic development in rural areas. For example, a recent study of more than 300 rural development experts yielded seven guidelines for success in rural economic development.³

1. Capitalize on existing resources. There is a great diversity in the kinds of resources that can be tapped in rural areas. Examples include natural, historic, ethnic, and scenic resources; interstate highways, former military installations, and vacant buildings; existing businesses and agribusinesses; and human resources as diverse as foreign residents, local craftspersons, and retired military professionals.

2. Focus on adding value to existing products. Often these products are natural resource derived, such as agricultural, fishery, forestry, and livestock products. There is increasing interest in small-scale processing plants, agricultural parks (with shared research, testing, packaging, and storage facilities), incubator kitchens for specialty food producers, and forest and furniture industry parks.

3. Aggressively pursue cash transfer strategies. Such strategies include application for available State and Federal grants and loans pertaining to community and economic development projects. The most frequent use of these funds is either to help establish and service industrial parks or to offer financial assistance to new or expanding businesses. Many rural areas are setting up revolving loan funds through these moneys. Beyond traditional grants however, rural communities are targeting State and Federal correction facilities, power plants, and Federal procurement and enterprise zone designations.

4. Focus on helping existing businesses stay and expand. Communities that have only recently begun economic development efforts are much more likely to pursue programs to help local industries stay in business and expand than to attempt traditional recruitment programs. These efforts include strategies to substitute local producers for nonlocal producers or locally purchased goods and services. In addition to these consumer hookup programs, there is an increased use of specialized assistance to the types of industries (e.g., woodworking, metalworking) that comprise an area's current industrial base. The assistance providers vary and might include university and community college faculty and their students, local business persons, retired executives, or consulting firms.

5. Incorporate education into long-term efforts. Emerging efforts go beyond viewing educational institutions as the providers of specialty training programs. Rural communities are

³ These lessons are drawn from Margaret G. Thomas in "Profiles in Rural Economic Development: A Guidebook for Selected Successful Rural Area Initiatives." Washington, DC, Economic Development Administration and Midwest Research Institute, April 1988, pp. 5-7.

turning to their secondary schools and supporting countywide consolidations, business-education partnerships, and rural school-based enterprises. Postsecondary institutions are contributing faculty as committee members in local development organizations and students as local researchers. There are economic development "amnesty" programs to get workers who did not complete high school directly into university courses. And there are many examples of a strong facilitator role contributed by the extension service system.

6. Seek training and capacity building for local leaders. This is an emerging area of great importance to young development organizations that depend on volunteers. Successful efforts have often tapped State agencies and professional associations to bring workshops, seminars, extension materials, and other training programs to local residents. Other communities have sent volunteers to regional training programs on subjects such as effective fundraising and grant writing. There is growing awareness of another critical need as well, and that is to break down traditional county political divisions between agricultural and nonagricultural interests. For example, more agribusiness committees are emerging in Chambers of Commerce, and farm/city coalitions are being formed in local development organizations.

7. Emphasize research, planning, and long-term consistency. Successful communities often incorporate strong planning components in their programs or goals. For example, strategic analyses of the economic linkages in a county or region are often the starting points. Coastal redevelopment plans and county land use plans are becoming more accepted in some conservative rural areas. Other areas have pursued safeguards to protect scenic resources where tourism is important, or covenants to maintain unique aspects of special industrial centers. And local organizations regard as essential gaining political and financial support for a long-term and consistent development effort. To this point it is worth noting that many of the rural areas that have succeeded in generating the most new jobs are areas that began their programs 15-20 years ago.

At the same time, we have also learned that what is popular and faddish in economic development does not always work. Consider, for example, the following lessons from State government.⁴

1. Don't simply create new public-sector programs. Change private-sector behavior instead. Unless a State can change what happens in the marketplace—how banks treat small businesses, how much corporations invest in training, how well academia and business interact—it is unlikely to have much impact.

2. Don't judge economic development efforts by how much money is spent. Many innovative programs—for example, Pennsylvania's Ben Franklin program or Michigan's Strategic Fund—are relatively inexpensive and they leverage far greater amounts of private investment.

⁴ Drawn from "Unconventional Wisdom" Inc., October 1987, p. 88.

3. Don't chase smokestacks. Smokestack chasing generally buys a State exactly the wrong kind of industries—the foot-loose industries that are most susceptible to foreign competition. The subsidies required to attract the opportunistic outsiders deplete the resources needed to create an environment conducive to new company formation and growth.

4. Don't count on low taxes to generate growth. Ten years ago, South Dakota, Mississippi, and Arkansas all had low taxes, while California, New York, and Massachusetts had high taxes. Which States showed the strongest growth? There is little connection between taxes and growth. The connection is between wise investments—in quality universities, school systems, and infrastructure (e.g., transportation and telecommunications networks)—and rapid growth.

5. Don't target small business; target innovation. Small business is the buzzword of the 1980's—and for good reason: small business generates most of the new jobs in the American economy and most of the innovations in American business. Yet only 10 percent to 15 percent of small businesses are potential growth companies. Target innovation, no matter what the size of the company.

6. Don't offer low-interest loans. Usually a few percentage points won't make or break a deal. It's generally more effective to make capital available, at market rates, to companies that couldn't otherwise get it because they are too small, too new, or too risky.

So, I am not a pollyanna about the future of rural America or prospects for the rural West. But, we have learned a lot, and there are significant grassroots assets on which to build—in the rural West as in rural America as a whole. The ingredients for success are there if we can develop the leadership and the institutional capacity to make things work. As Denver quarterback John Elway said two seasons ago on the Bronco's 2-yard line—just before the long touchdown drive against Cleveland, “If we work hard, good things will happen.”

Indeed, the key ingredients are leadership, vision, dedication, and determination. In the final analysis, the people will make the difference. Our job in the private sector is to give those who try the support they need. That's why the institutional issues are so important.

NONPROFIT AGENCIES, CHANGING FISCAL CONDITIONS, AND HUMAN SERVICES IN NONMETROPOLITAN COMMU- NITIES: SOME QUESTIONS FROM OHIO

By Philip A. Russo, Jr., Douglas H. Shumavon, Kenneth Hibbeln,
and Frank McKenna¹

Over the past several decades nonprofit agencies have developed into an important part of the human services delivery system at the local level.² In nonmetropolitan communities, in particular, nonprofit agencies may fill a significantly larger gap in the human services delivery system than in urban settings. Nonmetropolitan local governments frequently are faced with limited staff, scarce financial resources, overburdened institutional and administrative systems, and a widely dispersed clientele that creates economy of scale problems. Consequently these local governments may rely heavily on nonprofits as the principal providers of federally funded human service programs for such groups as the elderly, children, mentally handicapped, and low-income persons.

Recent changes in the funding of Federal social services are affecting service delivery strategies, and in some cases, the viability of nonprofit organizations. These nonprofit agencies deliver a wide array of federally funded services in nonmetropolitan communities. While some nonprofit organizations are growing in size and capacity, others' inability to adjust to shrinking budgets and increased service demands may jeopardize their survival.

Nonprofit agencies have evolved into an important complement to local government in delivering some services. In part because of the limited capacity of rural local governments and in part because of the encouragement of the use of nonprofits by the Federal grants-in-aid system, the number of nonprofit organizations used in the delivery of human services may be at its peak. While the total number of nonprofit agencies may not grow, it is projected that nonprofit organizations will employ 8.6 million persons by 1990, up from 7.8 million in 1985.³

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² Lester Salamon describes the partnership between voluntary organizations and government-financed human services and notes the pressures on those organizations caused by cutbacks in revenues. See Lester M. Salamon, "Government and the Voluntary Sector in an Era of Retrenchment: The American Experience," in the *Journal of Public Policy* 1, pp. 1-20 (Jan. - Mar., 1986).

³ Denis Johnston and Gabriel Tudney, "Characteristics of Workers in Nonprofit Organizations," *Monthly Labor Review*, July 1987, pp. 28-33.

This article reports on recent research which attempts to understand how nonprofit organizations are coping with budget changes in Federal programs, and the implications that their fiscal coping strategies might have for human services in nonmetropolitan areas.⁴ As one considers the future of rural development and the role of nonprofit organizations in the provision of human services, several questions might be addressed. First, are there any patterns developing among the nonprofit organizations delivering human services? If there are any patterns, what are they? How might we characterize these agencies? Second, given the patterns, what is the result in terms of effective delivery of human services? Third, how are nonprofit human services organizations responding to budget shifts and how do such shifts effect the delivery of services? Finally, what might be the resultant relationships between local government and these nonprofit organizations?

The discussion in this paper is based upon data from 12 nonprofit organizations administering three federally funded social service programs in Ohio: the Social Services Block Grant, the Community Services Block Grant and the programs funded through the Older Americans Act. The Social Services Block Grant (SSBG) allows for the provision of a variety of social services to the needy. The SSBG decentralized what was title XX of the Social Security Act (the Supplemental Security Income Program). Funds in this program are granted to States, which in turn grant money to local governments. County Departments of Human Services then are allowed to mix the delivery of services between their own in-house capacity and contracts to specialized nonprofit organizations.

The Community Services Block Grant (CSBG) is a successor to the Community Action Programs, the centerpiece of Lyndon Johnson's War on Poverty. Through the CSBG antipoverty efforts are funded through approximately 900 local community action agencies. The Community Services Block Grant directs Federal dollars to State governments rather than directly to the local agencies. States then pass dollars to these local, nonprofit organizations which develop a wide range of programs and deliver a mix of services to low-income individuals.

The Older Americans Act, originally passed in 1965, was designed to insure the health, independence, and dignity of older Americans through community planning, delivery of services and

⁴ This article presents the findings of one part of a larger study of 25 local governments in Ohio including 7 large cities, 6 urban counties, and 12 nonmetropolitan communities. The principal focus of the study was an assessment of the fiscal impact of Federal budget cuts on local governments. The study is based on the methodological and measurement techniques that have been applied to major national policy studies over the past decade, including studies sponsored by the Brookings Institution, Princeton University, and Cleveland State University.

Six nonmetropolitan counties and six nonmetropolitan municipalities in Ohio comprised the sample jurisdictions for this study. While these 12 jurisdictions reflect characteristics normally associated with nonmetropolitan local governments, the sample was not selected randomly, and statistical generalizations cannot be drawn. The findings presented in this report, therefore do not represent the general fiscal impact of changing Federal policies nationally or for all Ohio communities. Instead, the results of the field research are offered to highlight or draw attention to some of the emerging issues for nonmetropolitan communities effected by changing Federal fiscal policies. The six nonmetropolitan counties sampled were Darke, Defiance, Jackson, Huron, Muskingum, and Preble.

For a further elaboration on the Ohio study see *Local Response to Federal Budget Policies: A Study of Nonmetropolitan Communities in Ohio*, Philip A. Russo, Jr., et al., College of Urban Affairs, Cleveland State University; Center for Public Management and Regional Affairs, Miami University, 1988.

training. State planning agencies were designated to plan and coordinate the distribution of OAA funds and the provision of services and meals to the elderly. Title IIIB of the act funds the provision of services (assistance in homes, community centers, and transportation) and title IIIC funds both congregate-site and in-home meals for those who qualify. Frequently nonprofit organizations are the provider of services and meals, and are commonly associated with Senior Centers.

Funding of these three programs since 1981 has been somewhat different. The Social Services Block Grant allocations in Ohio dropped from \$133 million to \$123 million between 1981 and 1985. However, in our study of nonmetropolitan jurisdictions, SSBG funds doubled from the 1981 levels. These increases are unique to Ohio and were largely attributable to a law suit filed by rural Ohio counties challenging the State's formula for distribution of title XX funds. The accompanying State adjustment to correct inequities in the distribution of funds, rather than a change in funding priorities at the national level, explains the increases to counties while the State's allocation fell. In Ohio, the county Departments of Human Services may use up to 40 percent of their grant for contracted services.

Funding for Community Services was greatly reduced when the Omnibus Budget Reconciliation Act passed in 1981. The Community Services Block Grant showed a loss of 25 percent of previous funding levels. Ninety percent of the State's annual allocation must be given to the local organizations—the community action agencies—which in turn deliver the services.

The Older Americans Act funding in Ohio was \$26.5 million in 1981 and \$26.7 million in 1986. In constant dollars this means a significant decrease of real dollars by 1986. In Ohio, money from the OAA passes through the State to regional planning/service area organizations which in turn identify local needs and priorities. Subsequently, these regional organizations contract through local, nonprofit organizations to deliver the priority services.

HUMAN SERVICES AND THE ROLE OF NONPROFIT ORGANIZATIONS IN THE SIX COUNTIES

We studied 12 nonprofit organizations in six nonmetropolitan Ohio counties. These agencies may be categorized roughly into two types: (1) Small, single-clientele nonprofit agencies working in a narrow substantive policy area serving nonmetropolitan communities, and (2) mega-agencies, serving many nonmetropolitan clientele groups in a wide geographic area as they administer a variety of programs to local residents.

The Preble County Council on Aging and the Services for the Aging, Inc., in Huron County are examples of the former. They serve senior citizens exclusively, with funding primarily through the Older Americans Act. They are generally small operations, have limited budgets, few staff, specific clientele, and for the most part operate on a shoestring. The Supporting Council on Preventative Efforts (Darke and Preble Counties) and the Wood-Sandusky-Ottawa-Seneca Community Action Committee are examples of the mega-agencies. These organizations run operations that are diversi-

fied, are staffed with more specialized professional personnel, receive funding from a variety of sources—both Federal and State—and provide a variety of services to a wide clientele, although focused on lower income individuals.

TABLE 1.—NONPROFIT ORGANIZATIONS

Counties and nonprofit agencies	Agency type
Darke—Family Health Services of Darke County	SC
Supporting Council on Preventative Efforts	M
Defiance—Maumee Valley Planning Organization	SC
Northwest Ohio Community Action Commission	M
Jackson—Jackson-Vinton County Community Action Agency	M
Jackson County Board on Aging	SC
Huron—Wood-Sandusky-Ottawa-Seneca Community Action Committee	M
Services for the Aging, Inc.	SC
Muskingum—Muskingum Economic Opportunity Action Group	M
Carey Street Day Care	SC
Muskingum County Senior Center	SC
Preble—Preble County Council on Aging	SC
Supporting Council on Preventative Efforts	M

M = mega nonprofit agencies.

SC = single-client nonprofit agencies.

Source: Field research reports.

With funding cuts (or stable nominal-dollar funding) the use of nonprofit agencies to deliver various human services has increased over the period of years studied. Indeed, much of the increase in service delivery by nonprofits is explained by the assumption of additional services by mega-agencies. By 1986 mega-agencies were providing services in all of the programs listed in table 2, while single-client nonprofit agencies provided contract services in only four areas.

TABLE 2.—NUMBER OF SERVICES PROVIDED BY NONPROFIT ORGANIZATIONS, 1981 AND 1986

Program/service	Number of nonprofit providing services		Type of agency providing service
	1981	1986	
CSBG/Children's Program	3	3	M
Economic Development	0	2	M
Grant Administration	1	2	M
Head Start	2	2	M
Home Energy Weatherization	5	5	M
Housing Rehabilitation	1	2	M
Job Training (JTPA)	2	3	M
Medical Services, Clinics	1	1	SC
Rural Transportation	0	1	M
Senior Health, Wellness	2	3	M/SC
Senior Meals	8	8	M/SC
Senior Services	5	8	M/SC

M = mega nonprofit agencies.

SC = single-client nonprofit agencies.

Source: Field research report.

Moreover, growth and reliance on the mega-nonprofit agencies is illustrated by average budget figures for the agencies in the six nonmetropolitan counties. In 1981 the average budget of the mega-

nonprofits was \$2.7 million, and only \$247,000 for the single client nonprofits. By 1986, the average budget for mega-nonprofits increased dramatically to \$4.2 million, while the average for the single client nonprofits increased to only \$254,000.

TABLE 3.—GROSS BUDGETS OF 12 OHIO NONPROFIT AGENCIES, 1981, 1984, AND 1986

[In thousands of dollars]

Nonprofit agency	1981	1984	1986
Wood, Sandusky, Ottawa, Seneca (counties) Community Action Commission	4,786	8,669	¹ 10,300
Northwest Ohio Community Action Commission	3,736	3,659	4,437
Supporting Council on Preventative Efforts	2,333	2,218	3,375
Jackson/Vinton County Community Action Agency	1,770	1,660	2,225
Family Health Services of Darke County	714	868	1,072
Muskingum Economic Opportunity Action Group	1,019	990	832
Muskingum County Senior Center	NA	154	183
Preble County Council on Aging	NA	82	140
Services for the Aging, Inc.	125	163	130
Maumee Valley Planning Organization	65	76	117
Jackson County Board on Aging	84	99	94
Carey Street Day Care Center	NA	26	46

¹ Estimated.

NA = not applicable.

Source: Field research reports.

In the provision of services funded by the Social Services Block Grant, where the nonmetropolitan counties experienced an increase in funding dollars from 1981 to 1986, the number of nonprofit agencies contracted to deliver services in these counties increased from eight (8) in 1981 to sixteen (16) in 1986.

TABLE 4.—MAJOR SERVICES CONTRACTED OUT

Services offered	Jurisdictions reporting services funded by SSBG/contracted out
Homemaker services	Darke, Defiance, Jackson, Huron, Muskingum, Preble.
Children's protective services	Darke, Defiance, Jackson, Muskingum, Preble.
Children's placement services	Darke, Defiance, Jackson, Muskingum, Preble.
Transportation	Darke, Defiance, Jackson, Huron, Preble.
Day care	Darke, Defiance, Jackson, Muskingum.
Adult protective services	Defiance, Huron, Jackson.
Family planning	Defiance, Huron, Jackson.
Adoption	Jackson, Preble.
Information and referral	Jackson, Muskingum.

Source: Field research reports.

TABLE 5.—SERVICES PROVIDED BY 12 OHIO NONPROFIT AGENCIES, 1981, 1984, AND 1986

Funding	1981	1984	1986
Title IIIB, Older Americans Act...	SA, Inc.; MCSC; MEOAG; SCOPE; WSOSCAC.	SA, Inc.; MCSC; PCCA; J- VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC.	SA, Inc.; MCSC; PCCA; J- VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC.
Title IIIC, Older Americans Act...	SA, Inc.; MCSC; JCBA; PCCA; MEOAG; NWOCAC; WSOSCAC; SCOPE.	SA, Inc.; MCSC; JCBA; PCCA; MEOAG; SCOPE; NWOCAC; WSOSCAC.	SA, Inc.; MCSC; JCBA; PCCA; J-VCAC; SCOPE; NWOCAC; WSOSCAC.
Senior health wellness	MCSC; JCBA	MCSC; WSOSCAC	MCSC; WSOSCAC; PCCA.
JTPA	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC; J-VCAC.
Head Start Program	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC.
CSBG/children's program	J-VCAC; MEOAG; WSOSCAC	J-VCAC; MEOAG; WSOSCAC	CSDCC; MEOAG; WSOSCAC.

TABLE 5.—SERVICES PROVIDED BY 12 OHIO NONPROFIT AGENCIES, 1981, 1984, AND 1986—
Continued

Funding	1981	1984	1986
Home energy, weatherization	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC.	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC.	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC.
Economic development	NA	NA	MVPO; WSOSCAC.
Housing, community rehabilitation	SCOPE	SCOPE	SCOPE; WSOSCAC.
Rural transportation	NA	SCOPE	SCOPE.
Grant administration	MVPO	MVPO; WSOSCAC	MVPO; WSOSCAC.
Medical services clinics	FHSDC	FHSDC	FHSDC.

SA, Inc.—Services for the Aged, Inc., Huron County. MCSC—Muskingum County Senior Center. MEOAG—Muskingum Economic Opportunity Action Group. SCOPE—Supporting Council on Preventative Efforts, Wright-Patterson AFB. PCCA—Preble County Council on Aging. J-VCAC—Jackson/Vinton County Community Action Agency. WSOSCAC—Wood, Sandusky, Ottawa, Seneca (counties) Community Action Commission. NWOCAC—Northwest Ohio Community Action Commission. JCBA—Jackson County Board on Aging. CSDCS—Carey Street Day Care Center, Zanesville. MVPO—Maumee Valley Planning Organization. FHSDC—Family Health Services of Darke County.

Source: Field research reports.

There has been expansion in the variety of services provided and there has been a steady and rapid increase in the dollar amounts budgeted by the mega-agencies. This is true not only in traditional services to the poor (e.g., outreach, information and referral) but also in economic development, housing rehabilitation, grant administration. Moreover, we found instances of strategies to develop income-generating projects to continue the economic viability of these organizations. The mega-agencies appear to be relatively healthy and increasingly important in supplementing human services delivery in our sample nonmetropolitan counties.

The growth of mega-agencies may have occurred in part at the expense of small single-client agencies that were unable to cope with funding cuts, rather than simply a function of funding changes and increased county reliance on nonprofit organizations. Indeed, single client agencies show little change in the number and kinds of services provided during the 5 years and budgets for these programs show small growth. Several directors of these smaller agencies confirmed they faced crises at the beginning of the 1980's. Particularly for small agencies, new programs require specialized personnel and expertise. This is not always available or affordable to smaller organizations with smaller operations. As a consequence it restricts their flexibility in seeking new sources of money. Not only do they have limited funds, they do not have the political experience or expertise to generate attention or convey to funding agencies the urgency of their needs. Thus, survival frequently depends upon a single area of funding and access to a defined clientele. This is aggravated when funds from their primary source either decrease or do not increase sufficiently to keep up with inflation. During interviews several agency directors noted that there is little remaining flexibility in their programs and operations. As demands increase (without accompanying increases in funds) or when program shifts occur requiring adjustment in the provision of services, these smaller agencies are faced with even more difficult challenges.

While the mega-agencies may be losing revenues as Federal program funding is reduced, they may not be in immediate jeopardy because they receive funds from a wider range of public and pri-

vate sources. Also, they have the flexibility, given a wide variety of personnel skills and expertise, as well as experience and economic flexibility, to adapt to environmental changes and new program opportunities.

For the mega-agencies, cuts in governmental spending certainly hurt, but survival would be threatened seriously only in the deepest of economic recessions. While there have been cuts in various block grants (and consequent shifts or losses in personnel), growth in revenues has continued for four of the five mega-agencies (the fifth mega-agency had decreased revenues due to the loss of its senior citizen programs). Their ability to grow in the face of declining Federal revenues is the result of a number of related strategies. Because of their size, economic resources, and organizational structure, mega-agencies can invest in new and varied personnel skills. They also can have the flexibility to shift budget priorities within their operations. Finally, given the wider range of services provided, the mega-agencies are more capable of making adjustments to changing demands from either funding sources or clientele served.

IMPLICATIONS: SOME PRELIMINARY OBSERVATIONS

One consequence of the changes in the roles of nonprofit organizations may be that as funding becomes tighter, the services provided by the single-client agencies will either be eliminated or taken over by the mega-agencies. Indeed, we encountered precisely this phenomenon in several instances. One single-client agency, for example, was forced to give up its program of providing meals for the elderly. The result: a mega-agency assumed responsibility for both home-delivered and congregate meals. Providing transportation to the congregate-meal site (a costly operation) was left to the single-client agency. While there was a greater efficiency by consolidating meal preparation to one site within the county, the mega-agency is now able to expand its activities at the congregate site with the potential of expanding the meal-time activities to include other services already provided by the single-client agency.

Mega-agencies, with a larger, better trained staff are better able to seek out additional funds from a variety of sources. Several of the mega-agencies expressly sought and secured new grants (for example, transportation, planning for a recycling program). Consequently, these agencies have a more flexible budget. Using regularly allocated funds under the Community Services Block Grant to serve as seed money to develop a new program, mega-agencies can leverage funds to develop new ventures. This flexibility is a luxury that single-client agencies may lack because they are tied to a more limited number of funding sources or a single source of funds. Indeed, this flexibility allows some mega-agencies to initiate services in direct competition with some of the smaller agencies.

Local governments also appear to be significantly affected by the responses of nonprofit agencies. Local governments in nonmetropolitan areas (often lacking in personnel, expertise and other resources) often depend upon nonprofits to acquire and administer funds for human service programs. Nonprofits relieve local governments of significant burdens by administering a wide variety of federally funded programs. This deference on the part of local gov-

ernments has allowed mega-agencies to develop their skills, knowledge of how the Federal, State, and local systems operate, and an understanding of the "grants game." Consequently, they have assumed a role of providing services that local jurisdictions may find too costly to undertake themselves. While survival of some single-client agencies may be threatened, mega-agencies generally have adopted strategies, acquired skills, and developed areas of expertise that have enabled them to significantly expand the magnitude and variety of services they deliver to rural people.

It may seem clear, from our discussion, how nonprofit organizations are coping with budget changes in Federal programs, however the consequences that their coping strategies might have for human services in nonmetropolitan areas is not all that clear. Indeed, there are more questions than answers; questions that, given the focus and data of our study cannot be answered here. For example, will the development of mega-agencies result in more effective human services? Mega-agencies, with larger budgets and funding from a variety of sources, may achieve economies of scale and unit cost efficiencies, and fill in service gaps left open by single-client agencies that could not adapt to fiscal pressures, but this does not necessarily mean mega-agencies will provide more effective human services. Taking over homemaker visits to the elderly by being able to provide the service at a lower unit cost does not directly speak to the quality of service.

As discussed, in order to cope with changing fiscal conditions the mega-agencies we studied are taking on functions other than human services, for example grant administration, and recycling programs. How will the seeking of alternative funding opportunities, effect human service efforts? In other words, as mega-agencies access alternative funding sources for such activities as small business development programs, job training, or recycling programs, significant organizational resources, effort, and interest might be diverted from children's services, elderly programs, and family health services. This "distortion of agency priorities" calls to mind the longstanding criticism of the effect of categorical assistance grants on local governments. Local needs and priorities were distorted in favor of providing services for which Federal funds could be obtained.

Finally, what will be the relationship between nonprofit organizations and local government? One of the defining characteristics of the mega-agencies we studied was the fact that they had carved out clientele and service areas that crossed many local jurisdictions. Indeed, these mega-agencies can become somewhat independent of any one local government's resources and control, and may engage in autonomous program planning, needs assessments, and service delivery decisions. While their commitment toward client needs is acknowledged, organizational survival remains of central concern and mega-agencies may shift resources between jurisdictions based upon assessments by agency personnel. And, since local government officials exert less influence or control, issues of "accountability" for the local delivery of services may be a step removed from local government.

As mega-agency nonprofits evolve in the face of changing fiscal conditions, these questions concerning human services in nonmetropolitan areas will go unanswered until more focused research on incidence effects are conducted. Our research has focused on the fiscal effects of service providers; the key is how such changes effect service recipients in rural areas.

RISK CAPITAL AND RURAL DEVELOPMENT

By Peter S. Fisher ¹

INTRODUCTION

In recent years increasing numbers of public officials and policy-makers concerned with economic development in rural areas have become disillusioned with the plant attraction strategy that has dominated efforts to diversify agricultural or resource based economies. Heightened capital mobility has resulted in the closing of many branch plants that had become the mainstays of rural communities and people have questioned the desirability of competing with other communities as a source of cheap labor for routinized manufacturing operations of large absentee corporations. Attention has turned in many instances to what has been called "self-development" (Reid), a general approach to economic development that emphasizes entrepreneurship, the promotion of small, independent businesses, local ownership, and a lessened dependency on economic decisions made outside the community.

The traditional tools of local economic developers—industrial development bonds, tax abatements, subsidized infrastructure and industrial parks—are much less relevant to a self-development approach. The needs of new and small businesses are quite different from the needs of large manufacturing branch plants, with their sizable demands for land, capital facilities, and debt. New and small businesses need a network of supporting services rather than large-scale facilities, and they need risk capital more than debt.

Discussions of public policies to promote entrepreneurship and small business development in rural areas usually turn to the need for risk capital—equity or near equity investments at the product development or early growth stages of the life cycle of a business. It is widely asserted that such risk capital is quite scarce in rural areas and that this, in turn, is a significant impediment to rural entrepreneurship and the success of self-development strategies (Nathanson).

The rationale for public programs to increase the supply of risk capital for rural development must be based on three sets of arguments: (1) That the promotion of entrepreneurship and small business development is a sound and important component of a rural development strategy; (2) that the risk capital that is essential to new and small business growth is undersupplied, at least in rural areas, by existing private capital markets; and (3) that a public policy or institution can be created that will produce a more efficient or socially desirable allocation of capital towards risky ven-

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tures in rural areas. We will consider each of these arguments in turn.

SMALL BUSINESS, ENTREPRENEURSHIP, AND RURAL DEVELOPMENT

From a national perspective economic growth must come from net additions to the stock of productive capital, from technological innovation that saves resources or results in better products, from the discovery or exploitation of new resources, from improved health or education of the labor force, from greater utilization of existing resources, or from improvements in the organization of production; in other words, through enhancement or better utilization of the factors of production. Small communities, however, have tended to focus economic development efforts on expansion of the local capital stock through business attraction rather than business incubation or technological innovation, even though this strategy probably results simply in a relocation of capital rather than a net enhancement of the region's or nation's capital stock.

While the successful attraction of a major branch plant is a dramatic way to increase the local capital stock, it leaves the community dependent on that plant and on the fortunes of the industry of which it is a part. Many rural communities have diversified into manufacturing only to find that they were tied to a sector that was declining or losing out to foreign competition. The self-development approach is based on the assumption that a region's growth depends in no small part on its ability to replace declining sectors with growing ones; self-development attempts to stimulate this replacement process from within (rather than "buying" replacement firms from without).

The promotion of new, small, indigenous businesses is seen not only as an effective way to create jobs but also as a way to enhance the climate for entrepreneurialism and the community's capacity for innovation and adaptation to the constantly changing world economic environment. The political viability of such a strategy, however, probably depends much less on these latter more intangible or long-term effects than on the likelihood that there will be a quick payoff in the form of new jobs.

SMALL BUSINESS AND JOB CREATION

There has been considerable debate on the role of small business in job creation ever since the publication of David Birch's *The Job Generation Process* in 1979. Birch found that establishments with fewer than 20 employees accounted for fully two-thirds of the net new jobs created by the 5.6 million establishments in his sample between 1969 and 1976; 80 percent of the jobs were in establishments with fewer than 100 employees.

Armington and Odle (1982) of the Brookings Institution attempted to replicate Birch's results and to overcome a major deficiency in his study: the failure to distinguish between an establishment (a place of business, which could be a branch plant or a sales office) and a firm (a business organization owning one or more establishments). The Brookings study used firms, rather than establishments, as the unit of observation and found, somewhat in contradiction to Birch, that small firms create only a slightly disproport-

tionate share of the jobs. Firms with fewer than 100 employees accounted for 35 percent of the total employment and about 39 percent of the net new jobs between 1978 and 1980.

Recent evidence, on the other hand, indicates a more significant role for small businesses in job creation, though not to the extent that Birch reported. The U.S. Small Business Administration (1985) has developed and analyzed a database that distinguishes between branch establishments and independent small businesses. Firms with fewer than 100 employees accounted for 37.4 percent of the total employment in 1976 but 52.6 percent of the net new employment between 1976 and 1982. The Small Business Administration data also show that for all industries, gross job creation by firms with fewer than 100 employees consisted of about 7.5 million jobs created through expansions and 8.7 million created through start-ups of new establishments.

Does this pattern hold in rural areas as well as urban areas? Miller (1987) researched this question using SBA's small business database; he examined net job growth in small firms (fewer than 100 employees) and large firms in metro (MSA) and nonmetro counties from 1976 to 1980. (See Table 1.) In metro areas, small independent firms accounted for 27 percent of the jobs in 1976 but 40 percent of the net new jobs between 1976 and 1980. Corporate affiliate establishments (small and large), on the other hand, accounted for 62 percent of the jobs in 1976 and 63 percent of the job growth. (Large independent firms accounted for the minus 3 percent). Small business created a disproportionate share of jobs in urban areas.

TABLE 1.—EMPLOYMENT GROWTH IN URBAN AND RURAL AREAS BY FIRM SIZE, 1976-80

	[In percent]		
	Share of all jobs in 1976	Share of job growth from 1976 to 1980	Percent increase in jobs from 1976 to 1980
NONMETRO COUNTIES			
Independent firms:			
Small.....	35.5	30.7	14.8
Large.....	10.2	1.0	1.7
Corporate affiliates:			
Small.....	8.1	13.6	28.7
Large.....	46.2	54.6	20.2
METRO COUNTIES			
Independent firms:			
Small.....	27.0	39.7	21.9
Large.....	11.2	-2.5	-3.3
Corporate affiliates:			
Small.....	6.7	12.3	27.2
Large.....	55.1	50.6	13.7
All areas:			
Small.....	35.7	50.2	21.6
Large.....	64.3	49.8	11.9

Note: Metro counties are those within Metropolitan Statistical Areas. Independent firms are business establishments that represent an entire firm. Corporate affiliates are establishments that are a part of a multilocation firm (usually a corporation), such as a branch plant. A small firm is one with fewer than 100 employees; a small corporate affiliate has fewer than 100 employees in all locations.

Source: James P. Miller, "Recent Contributions of Small Businesses and Corporations to Rural Job Creation," USDA, Economic Research Service, Staff Report AGES861212, February 1987, p. 5.

In nonmetro counties, on the other hand, the small independent firms accounted for 36 percent of the jobs in 1976 but only 31 percent of the job growth. Corporate affiliates accounted for 54 percent of the jobs in 1976 but 68 percent of the job growth. The pattern is reversed in nonmetro areas: corporate affiliates, not small businesses, accounted for a disproportionate share of net new jobs. It is also worth noting that among the independent firms, both small and large and in both metro and nonmetro counties, the new firms (less than 5 years old in 1980) accounted for more than 100 percent of the net job growth in a given category; the old firms suffered declines in jobs.

More recent published data of the Small Business Administration for the period 1982-86 indicate that the rate of job growth is higher for small than for large businesses in both MSA and non-MSA counties. (See Table 2.) However, job growth was lower in nonmetro areas than in metro areas for all firm sizes. If we define small firms once again as those with fewer than 100 employees, small business in metro areas accounted for 35 percent of the 1982 jobs but 50 percent of the job growth from 1982 to 1986. In non-metro areas, small firms played an even more significant role; they accounted for 42 percent of the 1982 jobs but 68 percent of the job growth.

TABLE 2.—EMPLOYMENT GROWTH IN URBAN AND RURAL AREAS BY FIRM SIZE, 1982-86

[In percent]

Area and employment size of enterprise	Share of all jobs in 1982	Share of job growth from 1982 to 1986	Percent increase in jobs from 1982 to 1986
Within MSA's:			
Less than 100	34.8	50.1	17.3
100 to 499	14.4	9.7	8.1
500 or more	51.2	40.1	9.4
Outside MSA's:			
Less than 100	41.5	68.4	8.9
100 to 499	14.9	15.2	5.5
500 or more	44.4	16.4	2.0
Total:			
Less than 100	35.6	51.4	15.6
100 to 499	14.6	10.4	7.7
500 or more	49.6	38.1	8.3

Note: Job growth is the net change in employment from 1982 to 1986 for firms that were in the given size class in 1982, taking into account births, expansions, contractions, and closings.

Source: Calculated from tables 19 and A.29, pp. 47 and 143, in U.S. Small Business Administration, *The State of Small Business 1988*.

Miller's research does not support the case for focusing efforts on small, independent businesses in rural areas in the interest of job creation alone. It would appear that for the 1976-80 period, there was more mileage to be gained from the corporate affiliates, most of which were large establishments. The SBA data for 1982-86, however, cast some doubt on the conclusiveness of Miller's findings; they indicate a significant role for small business in rural job creation. It is interesting to note that both Miller and the SBA found that for the economy as a whole, small firms accounted for about 36 percent of the jobs at the beginning of the time period analyzed (1976 or 1982) and 50 percent to 51 percent of the job growth in the succeeding 4 years.

SMALL BUSINESS PROMOTION AS A RURAL DEVELOPMENT STRATEGY

Apart from the issue of job growth, what are other reasons for supporting a small business development strategy? Small businesses are likely to have substantial linkages to the local economy. In fact, one of the reasons smaller, innovative enterprises tend to develop in larger cities is that they need the variety of support services and technical assistance they can find there. Such agglomerative economies are less important to larger established firms with more internal capabilities. Thus promoting a small business sector may help stimulate the growth of a network of supporting industries and services, which in turn will be important to the development of other new enterprises.

Another benefit of a small business development strategy is that new, small firms are likely to be locally owned. If the goals of economic development policy include maximizing the recirculation of profits within the local economy and minimizing capital shifts out of the community, local ownership should contribute to both objectives. This could include developing the local retail and service sectors to reduce "leakages"—an import substitution strategy. Finally, a small-business strategy may be more effective in attaining diversification of the local economy and enhancing stability over the business cycle; a "portfolio" of many small firms in different industries is much less variable, or risky, than a portfolio of a few, large branch plants.

Despite the merits of a small business strategy, there are reasons to be skeptical. First, jobs in small businesses tend to pay less and to have fewer fringe benefits and less security than those in larger firms (Gordon 1979; SBA 1987), with the possible exception of the high-tech sector.

Second, one must consider the life cycle of a small firm. A small, locally owned business may be so successful that it is acquired by a large corporation; it becomes a branch plant simply because of its success. Looking just at young firms backed by venture capitalists, in order for the venture capitalists to recoup their capital (with a substantial gain) within the preferred timespan of 4 to 7 years, the firm generally goes public or is acquired. For the period 1980 to 1985, venture-backed firms were about equally likely to be acquired as to make an initial public offering of stock (Venture Economics, 1986, p. 48). Thus for the new, high-growth small business, independence may be only a brief episode in its life history; even if it stays independent but goes public, the original, local entrepreneurs are likely to lose control to external stockholders.

It is also not clear that locally owned small businesses are necessarily more "independent" than corporate branch plants and that a small business strategy will contribute to the development of a more self-reliant economy. In the area of manufacturing, economic autonomy may be attainable where a small local firm produces for a local market as final consumer. But much of the relative growth in small manufacturing firms can be attributed not to such local market cases but to firms producing directly or indirectly for national markets. A small manufacturer whose customers are large corporations producing for national or world markets is, in fact, independent in name only. The firm's existence and fortunes are tied

to a small number of large corporations, which may be characterized by both oligopoly and oligopsony. The small firm is highly dependent on the pricing, investment and product mix and design decisions of these corporations. In fact, it may be less secure than a branch plant, since the purchasing corporation has no investment in the local firm and hence no incentive to find a new economic use for the capital facilities should the old product no longer be needed. The corporation need only cancel a contract or stop placing orders, a painless action to take but nonetheless a death sentence as effective as a plant closing.

One of the more interesting hypotheses is that the small business phenomenon is largely an artifact of a recent trend towards subcontracting and the spinning off of certain manufacturing, technical, service and even managerial functions by large corporations. If a major manufacturer resorts to "outsourcing" for some of its components, fires its maintenance workers and subcontracts to a small, independent (and probably nonunion) firm, and decides to purchase other services (technical and managerial advice, accounting, advertising, etc.) that were previously done inhouse, the statisticians will register a decline in large-firm employment and in manufacturing employment, and an increase in small firm and in service employment. In fact, the same set of economic activities is being carried out as before (in some cases, probably by the same people), but we observe deindustrialization and the growth of the service sector, and the birth or growth of several small businesses.

Vertical disintegration through spinoffs and subcontracting may enable a corporation to externalize economic instability by creating a set of satellite dependencies that can be counted on to compete with one another but to be quite dispensable. To the extent that this last explanation is valid, a local strategy to encourage small business development may in fact be subsidizing the deunionization of industry and promoting economic insecurity on the part of the work force and the community, to the benefit of large corporations that remain in control of the markets and the crucial investment decisions.

Finally, it is not clear that a larger small business sector enhances job stability; the successful small firm may find it advantageous to leave the city that nurtured it in its infancy once it approaches maturity. The location that was best initially may not be best for a major capital expansion.

It is also incorrect, as Vaughan and Pollard have pointed out, to equate entrepreneurialism with small business. There are small businesses that are not at all innovative and have little growth potential, and there are large firms that are quite entrepreneurial. These authors argue for a variety of public policies to encourage entrepreneurial activity in general rather than policies aimed at conferring special benefits on small businesses, whether innovative or not.

THE SUPPLY OF RISK CAPITAL IN RURAL AREAS

RISK CAPITAL MARKETS

Risk capital is defined in this paper as equity capital (an investment that entails a share of ownership in the firm, usually through

purchase of stock) or "near equity." The latter term includes such investment instruments as loans with warrants (which give the investor the right to purchase shares of stock at a specified price in the future), convertible debt (which can be converted to stock shares at a specified rate), income bonds (where the debt service is deferred until a target profit rate is attained), and royalty financing (which entails a grant for product development costs plus an obligation to pay the investor royalties on product sales).

With pure equity, royalty financing, or income bonds, the investor provides "patient money"—there is no cash drain on the fledgling or rapidly growing firm until it becomes profitable; then the investor hopes to earn a substantial rate of return. With warrants or convertible debt, the investor provides debt financing to risky ventures at lower interest rates than would be the case with straight debt, since the risk premium is largely foregone in exchange for the chance to earn high returns through acquisition of stock should the firm succeed.

Risk capital comes from seven sources: (1) An entrepreneur's own resources; (2) funds from relatives and acquaintances; (3) a single wealthy investor, termed an "angel" in the jargon of the venture capital industry; (4) independent private venture capital firms, generally organized as partnerships of wealthy individuals; (5) corporate venture capital funds, organized as subsidiaries of major corporations; (6) Small Business Investment Companies (SBIC's), private firms that obtain funds from the U.S. Small Business Administration and from private sources and then make both loans and equity investments; and (7) State or local government funds that provide venture capital (usually stock purchases or loans with warrants) or royalty financing.

The first two sources are of primary importance at the research and development phase. The organized venture capital industry (categories 4 through 6) makes very few research and development or "seed capital" investments; only 2 percent to 3 percent of its total disbursements are in this category (Venture Economics 1986; Venture Capital Journal, May 1988). The industry's primary role is to provide financing for the stages between initial development and the time when the firm is ready to "go public" (make its initial public offering of stock). Some startup and early stage financing is provided for the firm that has developed a business plan and is ready to organize production; "angels" and other informal sources are also important at this stage. The bulk of the funds invested by the organized venture capital industry² are for expansion financing (for the firm that has some track record and is marketing a product and now needs to grow rapidly to meet demand) and for bridge financing (to sustain a growing firm for a short period until it can go public).

It is not known how much venture capital comes from informal sources (1 to 3). The organized private venture capital industry (4 through 6) consisted of a pool of funds amounting to \$29 billion in 1987; of this amount, 78 percent was accounted for by independent funds, 14 percent by corporate funds, and 8 percent by SBIC's (Ven-

² The percentage ranged from 44 percent to 63 percent of the total for 1985 through 1987; see Venture Economics, 1986, and Venture Capital Journal, May 1988, p. 17.

ture Capital Journal, April 1988, p. 10). The State and local funds are very small by comparison; the dozen or so funds in operation have a total capitalization of probably less than \$100 million. (See Fisher, 1988a and 1988b.)

THE GEOGRAPHY OF VENTURE CAPITAL

If we focus our attention on the organized private venture industry, which is the major source of venture capital beyond the research and development phase, we find that for the period 1985-87, 66 percent of the venture capital resources were concentrated in just three States: California, New York, and Massachusetts. (See Table 3.) By region, 43 percent was in the Northeast and 33 percent the West Coast; the remaining 24 percent was scattered over the Mid-Atlantic, Southeastern, Midwestern, and Southwestern/Rocky Mountain regions.

TABLE 3.—RESOURCES AND DISBURSEMENTS OF PRIVATE VENTURE CAPITAL FUNDS BY REGION, 1985-87

State or region	Capital resources (percent of total)	Disbursements (percent of total)
Three leading States:		
California.....	31	40
Massachusetts.....	14	13
New York.....	21	6
Texas.....		
Total (top 3 States):.....	66	60
Regions:		
Northeast (CT, MA, ME, NH, NJ, NY, RI).....	43	26
Mid-Atlantic (DC, DE, MD, PA, VA).....	5	5
Southeast (AL, FL, GA, KY, MS, NC, SC, TN).....	2	6
Midwest (IL, IN, IA, KS, MI, MN, MO, OH, WI).....	11	8
Southwest/Rockies (AZ, CO, LA, MT, NM, NV, OK, TX).....	6	12
West coast (CA, OR, WA).....	33	43
Total.....	100	100

Note: Percentages are unweighted averages of the percentages for the 3 years 1985, 1986, and 1987.
Source: Venture Economics, Venture Capital Yearbook, 1986, Cambridge, MA, pp. 9, 10, 29, 31; Venture Capital Journal, May 1988, pp. 15-16, and April 1988, p. 15.

The disbursement of venture funds to portfolio firms also concentrated geographically; in 1985-87, 40 percent went to California firms, 13 percent to Massachusetts, and 6 percent to Texas. By region, 26 percent went to the Northeast, 43 percent West Coast, 12 percent to the Southwest and Rockies, and the remaining 19 percent to the 25 States in the Mid-Atlantic, Southeastern, and Midwestern regions.

The above regional pattern of venture capital sources and uses is certainly consistent with the common perception that venture capital is very concentrated in metropolitan areas; the more rural sections of the U.S. contribute relatively little to, and receive relatively little from, the venture funds. This pattern is exhibited in more detail in data showing new capital committed to particular private venture funds in 1985 (Venture Economics, 1986). In the Southwest

region, and two others located in Santa Fe, Austin, Dallas, and Houston. In the Midwest region, 70 percent of the new capital was accounted for by six venture funds in Chicago, St. Louis, and Cleveland; 20 percent did go to two funds with ties to smaller cities: Cedar Rapids, Iowa, and Ann Arbor, Michigan. In 1986, all of the new funding in the Midwest went to firms in Chicago, Minneapolis, and Indianapolis (Venture Capital Journal, January 1987, p. 11).

Further evidence comes from a study of venture capital in Wisconsin (Hustedde and Pulver, n.d.) that entailed interviews of 40 venture capital firms in Illinois, Iowa, Michigan, Minnesota, and Wisconsin (representing most of the venture firms in those States). They found that even among these Midwestern, regional funds, about half had never invested in a firm in a rural area (defined as a community of less than 50,000). Another 25 percent had invested in only a small way: less than 10 percent of the portfolio was in rural firms. Only a handful of funds—all small ones, with less than \$5 million capital—had more than 25 percent of their capital in rural firms, and this was often accounted for by just one investment.

Another study by the same authors (Hustedde and Pulver, 1988b) involved a survey of 318 entrepreneurs in 1987 in Minnesota and Wisconsin who had sought equity capital. Of these, 38 (12 percent) were from nonmetropolitan areas. They found that 62 percent of the firms in metropolitan areas were successful in obtaining equity financing from private investors ("angels"), venture capital firms, banks or corporations; of the firms in non-metropolitan areas, only 37 percent were successful, a statistically significant difference.

IS RISK CAPITAL UNDERSUPPLIED TO RURAL AREAS

Hustedde and Pulver's results are suggestive of market failure, but certainly not conclusive; it could be that the rural entrepreneurs or the proposals they presented were more likely to have other characteristics that were associated with failure to obtain funding. For example, Hustedde and Pulver found that older entrepreneurs, those unwilling to surrender a large percentage of equity or lacking aggressiveness in seeking funding from a variety of sources, those who had not sought outside technical assistance, and those seeking smaller amounts of funding or with more established, later stage businesses were less likely to be successful. It could well be that rural equity requests were often too small to interest venture capitalists; of more policy significance, it is probably more difficult to obtain technical assistance and to locate a variety of financing sources in nonmetropolitan areas.

Does the apparent lack of venture capital for rural areas mean that markets are not allocating risk capital in a socially optimal fashion? Is there a case to be made for public action to augment the supply? Let us consider first the orthodox economic approach to this question in terms of efficiency and market failure. An efficient risk capital market would allocate capital first to the ventures with the highest expected returns, than to less profitable ventures, and so on until the point was reached that no additional investments could be found that would provide an acceptable return. This would produce an allocation of capital among regions such

that the expected return on investment was the same in all regions; if disparities existed, capital would be reallocated from the marginal projects in low-return areas (raising the average return there) to the projects next "in line" in the high-return areas (lowering average returns there), until returns were equal.

If risk capital markets are efficient, then the scarcity of venture investments in rural areas must reflect one of two things: (1) A scarcity of worthy projects to invest in, or (2) higher transactions costs for projects in rural areas, so that gross rates of return must be higher there to leave the venture capitalist with an acceptable net return.

There are some reasons to expect fewer bankable innovations per capita to be generated in rural areas. First, much of the innovation that is occurring in the U.S. is in high-tech industries that are less likely to be found in rural areas. Second, even in non-high-tech industries, many of the innovations are generated by individuals working within the industry in an engineering or R&D capacity; manufacturing in rural areas is more likely to be routinized production, with the more technical functions concentrated in urban areas. Third, innovation and entrepreneurship tend to be associated with higher education levels, and rural populations are relatively less educated.

A fourth possible explanation for a lack of rural innovation is that when the idea for a venture is germinated in a rural area, the entrepreneur may migrate to a city in search of technical support and a broader array of needed business services; by the time the backing of a venture capitalist is sought, the venture investment is an urban project. Finally, the relative absence of supporting networks of technical expertise and business acumen in rural areas may simply mean that a given "good idea" is much less likely to develop into a viable proposal for a new business, and will die on the vine instead.

There are also reasons to believe that transactions costs are higher for venture investments in rural areas. Venture capitalists are not passive investors, and they cannot rely on published annual reports or analyses of financial ratios. The investment decision is a very personal one, and entails first and foremost an evaluation of the entrepreneur's managerial ability. The venture capitalist's close contact continues after the investment is made; one of the venture capital partners typically takes a seat on the board of the portfolio firm and plays an active role in shaping the firm's decisions. Such close contact is clearly facilitated by proximity; travel time and the availability of nearby air service were mentioned as important factors by the venture capitalists in the Wisconsin study in deciding whether to consider making an investment in a rural firm.

It is thus plausible, but by no means established, that risk capital markets are working efficiently in allocating relatively little to rural ventures. It is also plausible that market imperfections exist. First of all, some have argued that the overall supply of venture capital is inadequate as evidenced by the high risk-adjusted rates of return on venture funds (Premus). According to the standard economic efficiency argument, capital should be reallocated from

other areas to venture capital until risk-adjusted rates of return are equal.

Second, even if the overall supply of venture capital is appropriate, many have argued that it is undersupplied to small firms. Venture capital firms generally have a clear preference for larger deals (Andrews, 1986). For the organized segment of the venture capital industry, the average investment per recipient firm was \$1.6 million in 1982 and \$2.3 million in 1983 (SBA 1985, p. 219). While venture-oriented SBIC's do specialize in small investments (under \$300,000), SBIC's account for a small share of the total assets of the organized venture capital industry (Florida and Kenney, 1987). Other Private venture firms are reluctant to make venture investments under about \$300,000.

One of the major reasons given for the institutional venture capitalists' preference for larger deals is that the transactions costs associated with a deal—particularly the evaluation of products and business plans—are about the same for small as for large investments. By investing in a smaller number of larger deals, a venture firm reduces total transactions costs. Transactions costs are real costs; they can be reduced if a venture capital firm specializes in a small number of industries about which it can become an expert, and if it invests in firms close to home where evaluation of management is easier. But transactions costs cannot be eliminated, and the refusal of venture capitalists to make investments with high transactions costs not offset by higher returns or lower risk does not constitute market failure.

Third, it is possible that venture capitalists, being concentrated in urban locations, have an urban bias in project selection. It is also quite plausible that they invest little in obtaining information from rural areas, even when the cost would be warranted. Unfortunately, no evidence is available on the average rates of return on venture investments in rural versus urban locations, so we cannot tell if rural returns are higher than urban returns, after accounting for transactions cost differences. That result is what we would expect if capital is undersupplied to rural areas; only the most profitable rural ventures would get funded, because of a bias on the part of venture capitalists or because of poor information.

Fourth, there may be an information failure in the rural financial sector rather than on the part of the urban venture capitalists. Hustedde and Pulver (1988a) have concluded from their research on the venture capital process in Wisconsin that "nonmetropolitan banks are less involved in facilitating the flow of equity capital than are metropolitan banks." They argue that the information network that serve to put entrepreneurs in contact with appropriate sources of equity capital in urban areas remains relatively undeveloped in rural areas, and that such a network is crucial to the flow of venture capital.

There are at least two reasons for looking beyond the strict efficiency criteria, which would allow for government intervention in the capital market only if it could be established that a market imperfection existed (such as barriers to the flow of capital, underinvestment in obtaining information on investment opportunities in rural areas, or a bias against rural business proposals on the part of urban venture capitalists). First, considerations of interregional

equity may lead us to adopt a policy of promoting development in lagging regions when markets do not appear to be producing an equalization of incomes. Second, we may wish to use capital market policies to correct problems in resource and product markets. If the venture industry attains superb "efficiency" at passing out money to the wrong people, that attainment is a hollow victory. Capital markets cannot be efficient in a meaningful sense if they are responding to signals in the form of rates of return that reflect inefficiencies and distortions in real product markets or labor markets.

PUBLIC INSTITUTIONS FOR THE PROVISION OF RISK CAPITAL

What role can publicly created institutions play in improving the allocation of risk capital to rural areas? Let us look at the experience thus far with the dozen or so State and local government entities that have been established in the past 15 years to provide risk capital to new ventures and small businesses within their jurisdictions.³

There are two principal categories of State and local risk capital institutions: product development corporations (PDC's) and venture capital funds (VCF's). Product development corporations have now been established by eight States for the purpose of promoting the development of innovative sectors of the economy. They operate by providing a grant to a firm to finance the design, testing, and commercialization of a new product, in return for royalties on sale of the product. At least six States have established venture capital funds to provide financing for new and small businesses, generally in technology-based industries. The funds typically provide both debt and equity, the equity investment taking the form of a stock purchase or a warrant for future purchase of stock, or the provision of convertible debt.

Although these institutions do not have an explicitly rural or urban focus, most of them have made investments in at least some rural communities. Table 4 lists most of the active product development corporations and venture funds operated by State governments, and the urban/rural pattern of their investments. The striking thing is that most programs exhibit a distribution of investments that is not far out of line with the distribution of population among urban and rural areas. They are not supplying venture capital exclusively to urban centers. In Iowa, North Carolina, Massachusetts, and New York the proportion of investment dollars in rural areas exceeded the rural share of population. In Illinois and Ohio there was an urban bias evident.

³ The following discussion of State risk capital institutions is adapted from Fisher, 1988a and 1988b.

TABLE 4.—INVESTMENTS OF STATE RISK CAPITAL FUNDS IN URBAN AND RURAL AREAS

State program and years covered	Number of investments		Dollars invested (thousands)		Percent of dollars invested		Percent of State population	
	MSA	Non-MSA	MSA	Non-MSA	MSA	Non-MSA	MSA	Non-MSA
PRODUCT DEVELOPMENT CORPORATIONS								
Connecticut PDC (fiscal years 1983 through 1986)	27	1	\$10,345	\$380	96	4	92	8
Iowa PDC (fiscal years 1984 through 1986)	4	5	228	550	29	71	42	58
Illinois Business Innovation Fund (1985 thru March 1987)	33	3	3,118	300	91	9	82	18
Ohio Edison Seed Fund (fiscal years 1984 and 1985)	28	1	2,833	253	92	8	79	21
North Carolina Innovation Reserve Fund (fiscal years 1984 and 1985)	10	5	389	550	41	59	55	45
VENTURE CAPITAL FUNDS								
Massachusetts Technology Development Corp. (1979 through September 1986)	24	4	5,497	829	87	13	96	4
New York Corp. for Innovation Development (1983 and 1984)	10	3	1,310	385	77	23	90	10
Illinois Equity Investment Fund (1985 thru March 1987)	8	0	1,883	0	100	0	82	18
Massachusetts Community Development Finance Corp. (fiscal years 1983 through 1985)	81	28	15,781	6,805	70	30	96	4

Source: Annual reports of the various funds and U.S. Census data on population.

Note: Investments made to firms located in counties within an MSA (metropolitan statistical area) were designated as MSA investments; all others were rural or Non-MSA.

THE CONNECTICUT PRODUCT DEVELOPMENT CORPORATION

The oldest of the MDC's, the Connecticut Produce Development Corporation, is now in its 13th year of operation. It has served as a model for the seven similar institutions established since 1980. PDC's are created either as public corporations (or public authorities) or simply as programs operated within a State agency. They are capitalized with public funds and are intended to promote the development of new products. The financing mechanism is a royalty agreement, whereby the PDC awards to the firm for specified product development costs and in return lays claim to royalties (a specified percentage of product sales) should the product be marketed successfully. Such investments are highly risky, of course; the PDC's hope to offset the inevitable losses from investment in products that never reach the market or fail to sell by collecting substantial royalties (generally up to five times the amount of the original grant) from the big "winners."

PDC's provide a form of financing not generally available from private venture firms.⁴ Royalty financing has an advantage to the firm over the typical equity or combination debt/equity financing of the venture fund: there is no dilution of ownership and control.

⁴ Royalty financing is not generally provided by the private venture capital industry. About 75 percent of the assets of the organized venture capital industry are controlled by the limited partnership form of venture capital firm (Florida, 1987); such firms have a fixed life span of 7 to 10 years, and seek to make investments in the first few years and then to get out in 4 to 7 years by selling the stock when the firm goes public or in leverage needed to force the firm to go public, to be acquired, or even to buy back its own stock if necessary. Royalty financing does not provide this leverage and thus leaves the venture capital partnership with less assurance of being able to cash in on the investment and reap capital gains.

It is also worth noting that royalty financing, unlike equity, is suitable for forms of business organization other than the stock corporation, such as proprietorships, partnerships, or cooperatives.

The CPDC made its first investments in 1975. By June 1986 it had entered into royalty agreements with 65 firms, involving 79 products, and had awarded \$12.9 million in product development grants. The CPDC estimates that about 1,000 full-time jobs had been created through June 1986. Cumulative royalty income had reach \$2.4 million by June 1986, compared to about \$2.1 million in operating costs over the same period.

The total investment of public funds (i.e., the total Federal grants and State bond funds expended to finance new investments and operating costs over and above what covered from royalty and interest income) had reached about \$12.3 million by the end of fiscal 1986. With net investment income of around \$500,000 per year in recent years and new product development grants averaging about \$2.7 million, the CPDC has clearly not yet reached the point that it can produce annual income sufficient to finance new grants and yield a reasonable return on the public's investment.

STATE VENTURE CAPITAL FUNDS

State funded and managed venture capital funds now exist in Illinois, Massachusetts, New York, Oregon, Wisconsin, and New Hampshire. They are generally organized as quasi-public not-for-profit corporations or public authorities, governed by a publicly appointed board of directors. They are usually capitalized with Federal grants and State or local government appropriations, although in a few instances State or local general obligation bond issues have provided the capital.

Four of the seven State VCF's are free to invest anywhere in the State; they are not required to target funding at particular areas or population groups. The other three are a subspecies of venture capital fund: the community development finance corporation. A CDFC is a venture fund targeted at economically distressed areas and providing funding only through local community development corporations. There are also several venture funds operated by local governments.

The oldest State venture capital fund, except for the Massachusetts Community Development Finance Corporation, is the Massachusetts Technology Development Corporation (MTDC). The MTDC was established in 1978 by the Massachusetts legislature to provide capital to "new and expanding technological enterprises which have the capacity to generate significant employment growth." Social objectives beyond job creation were not stated in the legislation and do not appear to play a role in MTDC's investment decisions. The board consists of six individuals from the private sector and two from the university community, plus three public officials.

The MTDC was capitalized with Federal and State grants and annual appropriations from the Commonwealth of Massachusetts. Through fiscal 1987 it had received a total of \$8,450,000 in State and Federal funds for investment. All investments are a combination of debt and equity. The debt portion is typically a long-term, unsecured, subordinated note at a favorable interest rate, with a

partial moratorium on principal repayment. The equity position usually consists of common stock or warrants. The typical investment is between \$100,000 and \$250,000.

Between 1979 and September 30, 1986, MTDC made investments totaling almost \$8 million in 35 firms. Of the 35 firms, only 4 have failed, although a fifth was failing when another firm acquired it. Seven of the firms have gone public. The MTDC has received substantial capital gains, realized or potential, from those firms through appreciation in the value of the stock or from the sale of the warrants.

By the end of its 9th year of operation (June 1987), MTDC had cumulative investment income of about \$6.1 million, more than sufficient to offset \$4.3 million in cumulative costs of operation. The \$1.8 million excess of income over costs added to the public's equity in the corporation (i.e., fund balances, or assets minus liabilities); by June 1987 public equity exceeded the total commitment of public funds (\$10.2 million). Net operating income, in other words, has been sufficient to preserve the public's capital and to begin to augment it.

In the first 8 years of operation (through June 1986), MTDC's first-round investments of \$7.4 million leveraged \$38 million of private capital from coinvestors; subsequent rounds of investment in those firms amounted to about \$600,000 from MTDC and about \$58 million from private sources (MTDC Annual Report, 1986: 5). The 29 firms that were active businesses as of June 1986 employed more than 2,000 people and their payrolls totaled in excess of \$53 million. That represents an average annual salary of over \$26,000, and about a \$4,000 MTDC investment per job created.

To get a better picture of the expected financial return expected from the public's investment in MTDC over the first 20 years of operation, I produced a simulation of MTDC's investments and income for 1988 through 1998, based on its actual performance during 1979 through 1987. Under reasonable assumptions (i.e., assumptions that correspond roughly to MTDC performance thus far), MTDC will prove profitable within the first 16 years of its operations. The results of the simulations varied, however, from a low of negative \$30 million to a high of plus \$49 million.

ARE PUBLIC RISK CAPITAL FUNDS A GOOD INVESTMENT?

Evaluations of public programs do not generally use profitability as the measure of success. However, when the program in question is a public enterprise, such as a State venture capital fund or product development corporation, profitability is a useful starting point. If the fund earns a competitive rate of return and is not merely displacing private capital, we can presume that the program is providing benefits in excess of costs and is making at least some contribution to economic development.

The public's investment in a risk-capital fund would be profitable if earnings in future years can yield an overall rate of return at least equal to the average market return available to the public on their foregone funds. Profitability, however, does not guarantee that the public venture fund has augmented the supply of venture

capital and stimulated the innovative, technology-oriented sector of the State economy.

If the public fund's investment criteria, financial instruments and terms, and investment holding period are the same as those for the average private fund, the public has simply provided another source of funding for the same set of potential ventures. That would tend to drive down returns to venture funds, since the supply of funds has increased but demand has not. If venture capital funds are reasonably competitive on a regional basis, however, and if venture investors indeed require the high returns they generally obtain, then the public funds would merely displace private capital; the overall supply of funds would be unchanged and the high rates of return would be maintained. The public program then would have contributed nothing to economic development.

Complete displacement is unlikely to occur, for several reasons. First, to be eligible for public fund investments, firms must show that they were unable to get financing elsewhere. (MTDC and CPDC officials assert that none of the venture investments that they have participated in would have occurred were it not for their involvement; although I cannot verify that assertion, it is certainly plausible.) Second, the public funds specialize exclusively in small deals (\$100,000 to \$300,000) and their average investment is far below the mean for private independent and corporate funds. They are targeting the neglected small borrowers.

Our evaluations of the CPDC and the MTDC show that they have not yet become truly profitable. We might ask if a public risk capital fund is desirable if it probably will be unable to earn the opportunity cost of taxpayers' contributions. Will there be public benefits sufficient to justify a public subsidy?

The usual measures of "public benefits" attributed to venture funds (and to other economic development programs) are generally not valid in a benefit-cost framework. Typically, State legislators and the fund's proponents will use the number of jobs (or the payroll) and the tax revenues that the recipient firms generate as the measures of public benefits. The validity of this practice rests on two assumptions. The first is that the particular economic activity financed would not have occurred (at least in the State in question) but for the public investment. The second assumption is that the resources used by the recipient firm had no opportunity cost; that is, the labor, capital, and land utilized would otherwise have been idle, so that their productive use by the recipient firm has no economic cost and is entirely a net gain.

These are strong assumptions, and are probably insupportable in many instances. While the first may hold true for many, or even all, of a fund's investments, it is unlikely that all of the labor and other resources of the recipient firms would otherwise have been unemployed. If instead the resources are attracted from other uses, then the firm's payroll is not a net increase in State personal income, nor are the taxes that the firm pays a net gain to the State. Payroll or profit reductions elsewhere, and corresponding tax losses, offset these gains. That process illustrates a fundamental tenet of benefit costs analysis, but one widely ignored in evaluations of economic development programs.

A public investment program can, however, produce true net public benefits by redirecting investment in such a way that the structure of the economy or the nature of jobs and production changes significantly. Such change could involve enhancement of multiplier effects through forward and backward linkages with existing businesses; enhancement of long-term growth and stability through local ownership, local reinvestment of profits, and local control over capital investment and plant closing decisions; enhancement of employee welfare (job health and safety conditions, employment stability and security, opportunities for training and advancement, pay levels and fringe benefits); and enhancement of community welfare through the production of something useful and healthful and through ensuring that the production process is not harmful to the environment or to public health and safety.

State risk capital funds may not perform especially well when evaluated against that broader set of public objectives. The MTDC, CPDC, and similar programs do not consider aspects of a firm's performance such as targeting jobs to groups of the population especially hard hit by unemployment (providing replacement jobs for blue-collar workers in traditional heavy industry, for example) or the nature of the firm's linkages to the local economy, its likely stability, the social value of its products or services, or the externalities associated with its activities.

RISK CAPITAL AND RURAL DEVELOPMENT POLICY

My conclusions are brief and consist of two caveats in designing capital allocation policies for the development of rural areas.

SMALL ISN'T ALWAYS BEAUTIFUL

There are many reasons to be skeptical of the wisdom and effectiveness of a blanket strategy of promoting the development of new and small businesses in the name of community self-development. Rural areas are lacking in many of the elements that appear to be important in developing small businesses and innovation, when compared to urban areas. And small businesses do not necessarily make a community more independent, stable, and adaptable, nor do they necessarily provide good jobs.

A targeted strategy that tied financial assistance to the attainment of a broad range of community goals would be preferable to one which focuses solely on "job creation." If the community's objectives are to foster development that is innovative, has growth potential, strengthens rather than displaces existing, economic activity, provides decent jobs, enhances economic independence and job stability, and puts the community in a better position to adapt to future changes in the structure of the economy and in employment patterns, then those objectives should be operationalized in economic development assistance programs as eligibility criteria. It is likely that the result would be a flow of assistance primarily to smaller firms, but support would also flow to innovation in large, established business, for example, and would be denied to the minimum-wage retail franchise operation that displaced better jobs in an existing business and had fewer linkages to local suppliers.

RISK CAPITAL IS NOT ENOUGH

A public institution to provide risk capital for rural enterprises would probably accomplish little by itself. Many analysts have argued that the real "capital gap" in rural areas is the relatively small seed capital investment (Hobbs, 1987, p. 9; Smith, 1988, p. 10; and Malecki, 1988, p. 19). From my own research, this seems likely. But to provide such capital in a vacuum would probably be futile, for it is not the one "missing link" that is preventing rural development from occurring. There are many missing links.

Risk capital, if it is to be provided at all, needs to be integrated into a program supplying many supporting services as well—financial and managerial advice and assistance first and foremost, but also other types of supporting services that small enterprises need to prosper. The community development finance corporations probably provide the best model in this regard, since they combine equity and debt financing from State funds with technical support, seed capital grants, and information brokering through local community institutions. (See Prestemon, 1986.)

Finally, since a public risk capital institution is unlikely to be profitable in private sector terms (at least within the first 10 to 15 years) it should be clear that it is pursuing genuinely public purposes that justify the public subsidy it will receive, and is not merely taking taxpayers' money and throwing it after questionable ventures in the name of job creation.

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PRIVATE INITIATIVES FOR RURAL DEVELOPMENT: IDEOLOGICAL COP OUT OR ENGINE FOR PROGRESS

By Ronald W. Cotterill ¹

"Yeobright loved his kind. He had a conviction that the want of most men was knowledge of a sort which brings wisdom rather than affluence. He wished to raise the class at the expense of individuals rather than individuals at the expense of the class." (Thomas Hardy, *Return of the Native*, p. 194.)

As a discussant at this symposium on Rural Development I have been asked to comment on presentations by Phil Burgess, Peter Fisher, and Douglas Shumavon (Russo and Shumavon) and to discuss cooperatives as a vehicle for rural development. I would like to do this in the context of a discussion of two fundamentally different theories of poverty and the role of private institutions in the development process.

After listening to these presentations, and others in the symposium, a general observation comes to mind. We probably have not cast our nets widely enough to have the intended impacts that this group wants to have. Admittedly, we have marshaled several facts that document the extent of rural underdevelopment and the efficacy of certain approaches for alleviating the problem; but, I don't think that we will convince our critics of the necessity of work in this area by presenting such facts. If, indeed, that were the case, we would have more rural development and less rural poverty than we have today.

What is the nature of the problem in rural development, and the related core issue—rural poverty? What is the critical impediment? I would suggest that there are two competing ideas as to what the nature of the problem is and what the major impediment is. One idea is that the problem is fundamentally motivational in nature. The other is that the problem is fundamentally structural in nature.

Taking motivation first, in the last 8 to 10 years we have seen resurgence of the classical economic concept that the source of the underdevelopment and poverty are indeed motivational. What the government needs to do is provide hope for people, possibly get off their backs, possibly revitalize the private sector, and possibly instill self-reliance in people that have forgotten the meaning of the term.

With regard to self-reliance, some proponents of motivation have advanced the notion that a dollar earned is worth several dollars in

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transfer payments. In other words, an earned dollar has more utility to a poor person than several dollars in transfer payments. Perhaps "Yeobright's wisdom" or pride is involved. But if a child is hungry and a poor parent has only \$1 to feed him as opposed to \$10 or whatever, maybe it's not true.

Also, after having listened to Phil Burgess, there is the notion of the motivation of the rich in society. As a graduate student working under Lee Bawden in the early 1970's, one of the first papers I read was Hochman and Rodgers neoclassical analysis of transfer payments (Hochman and Rodgers, 1969; 1970). Their intent was to provide a theoretical basis for government transfer payments, however their effort provided impetus to the nascent public choice school of Buchanan and Tullock. A fundamental proposition therein is that government failure may be worse than market failure (Wolfe). Public efforts to improve social welfare may, in fact, reduce it due to organizational inefficiencies, and disincentives. In other words, the voluntary sector can do just fine because the rich, if given the opportunity and encouragement to contribute to the poor, can do so in a socially optimal fashion. Altruism as well as profit maximization can energize private initiatives to benefit the poor. This is a sophisticated generalization of classical political economy with its minimal state presence.

The second theory of poverty and underdevelopment is structural. Structure is something that we have all talked about today, the idea of physical and human resource constraints, the idea of prices being out of whack, the organization of economic activity—including nonprofit agencies, public venture capital firms, and cooperatives to fill gaps in performance left by investor owned firms. These are the bread-and-butter of the social scientists seated around the table today.

Well, one might ask, what is the point of bringing up these two major competing theories of underdevelopment and poverty? I think that the two papers presented by Peter Fisher and by Douglas Shumavon (Russo and Shumavon) reflect professional jet lag in our thinking because the papers move to directly show the use of public intervention to solve market failure problems. They instinctively move to show the government can put more money into the system, how the power of the state can be used to alter the opportunity set facing private decision makers, and how new institutions can be created by government so that more rural development occurs.

Yet, there is a more fundamental question, and there is a more fundamental contribution that we have to make to the political debate before this is going to happen. We have to answer the following question: How have market forces worked? Frankly, I think it is a wonderful time to do that. As a matter of fact, research presented by Swanson (Skees and Swanson) today provides answers. We just need to back up a bit, ask the question, and get it out into the political arena and debate.

Market forces have not worked to enhance rural development and reduce rural poverty during the 1980's. But even if we provide that answer, we probably are not going to answer our critics, because antecedent to our analysis of the market are assumptions about things like entrepreneurial zeal, and values that promote

self-reliance. Much of the recent criticism of work on poverty argues that these are endogenous. It appears that we need to answer questions such as, has there been an expansion of entrepreneurial zeal, and has there been a shift in the values of the leadership of American corporations over that last 8 years with regard to rural poverty? I think what we are talking about here is a test of Phil Burgess' hypothesis: Have large American corporations over the last 8 years energized and motivated themselves? If so are they acting on the basis of altruism or profit maximization? Are they promoting rural development?

As Phil says, they are to a certain degree. Is the amount of the response commensurate with the need? Do they need assistance, as he suggests, because sometimes they're like bulls in china shops when they get into this activity?

We also need to ask has there been an increase in self-reliance among the rural poor and has there been a shift in their valuation of it? Do they value a dollar earned through the market more than several dollars of transfer payments even when their child is starving? Put it right in its most stark hypothetical form and answer the question.

My fundamental point is that the center of the intellectual arena on the issue of rural poverty has shifted away from the technical expertise located in this room. We need to look more carefully at the philosophical and political economic foundations of our economic analysis. I say this after having read a number of pieces ranging from the Robert Nozick's, *Anarchy, State, and Utopia*, a libertarian treatise, to David Levine's, *Needs, Rights, and the Market*, a neo-Ricardian approach to the issue of rights and allocation of resources and poverty. Philosophers are introducing economics into philosophical analyses of distributive justice. What distribution of income is right? We are implying that the current distribution in rural America is wrong. I am not so sure everyone would agree. As Nozick concludes:

The framework for utopia that we have described is equivalent to the minimal state . . . The minimal state treats us as inviolate individuals, who may not be used in certain ways by others as means or tools or instruments or resources; it treats us as persons having individual rights with the dignity this constitutes. Treating us with respect by respecting our rights, it allows us, individually or with whom we choose, to choose our life and to realize our ends and our conception of ourselves, insofar as we can, aided by the voluntary cooperation of other individuals possessing the same dignity. How dare any state or group of individuals do more. Or Less (p. 333-334).

This minimal state is formally equivalent, Nozick argues, to a competitive market economy with no government intervention.

Let us shift now to structural analysis. The work that Peter Fisher has done is good. I commend it, and think his paper is definitely worth reading because it is a very careful explanation of how markets can fail and of why more economic activity is not located in rural America. He, moreover, does us a great service by

carefully documenting some of the pitfalls of looking at things quickly.

In his analysis of the Deere & Company spinoff, Fisher basically argues that it is a way to bust a union and shift work to lower priced sites. Some critics, however, might suggest that a new economic institution is in place; and although they are reliant on Deere, they could probably shift to production of some other component part for another company, possibly even a foreign firm. In other words, this new institution may find opportunities for rural workers that would otherwise be missed. I tend to think, however, that if one empirically investigated the performance of spinoff firms Peter's analysis would carry the day. Certainly, the evidence on worker buyouts of rural based enterprises such as Rath Packing suggest little long-term benefits.

Most rural development analysis have focused on expanding production to produce jobs, and to produce incomes. They ignore or downplay the study of distribution of goods and services in rural areas. Peter falls into this trap a little bit in his paper when he makes the statement that making changes in the distribution of services in a rural area will not increase the welfare of rural residents.

I would like to take this oversight to task. Rural residents, according to the dependency hypothesis that Professor Brown put forward and Peter mentioned, can be exploited not only by the operation of noncompetitive rural labor markets but also by the importation of goods and services. Monopolies or noncompetitive distribution systems can extract income from an area. The delivered prices that rural entrepreneurs must pay for inputs imported to the area for productivity activity, and the prices that rural residents must pay for consumption goods are critical parameters for any rural development initiative. Permit me to give you an example.

Working for the Attorney General of Vermont on the grocery industry in Vermont in the early 1980's, we found that two national chains dominate the Vermont retail grocery market (Cotterill, 1986). They sell approximately 60 percent of the supermarket groceries in Vermont. One of those chains gave us their profits before they realized what they had done, I think, because the profit-sales ratio on this chain was in excess of 5 percent of sales, whereas the industry profit rate throughout the country is about 1.5 percent of sales. This chain made 3.7 percent of its sales in the State of Vermont and 15.1 percent of its corporate profits came from those sales. Moreover, this was not a small regional chain. It is one of the top 15 chains in the United States, controlled at that time by one of the worlds preeminent corporate raiders, Sir James Goldsmith. This is an example of the dependency hypothesis. The food distribution system is organized noncompetitively and resources are being taken out of the area.

One might counter, "Well, maybe they're reinvesting some of these earnings in new plant and equipment in Vermont." In fact the two leading chains suggested that they would do that when this came to light. I talked with the Assistant Attorney General about a year ago and he said that they talked about it for a couple of years. However they have made only marginal changes in their operations.

I mention the above example for another purpose as well. A second major point is that contrary to myth, I would hypothesize that it is more expensive to live in rural areas with regards to food procurement than it is to live in an urban area. Why can't rural consumers "grow their own?" First, most of rural families now are nonfarm. Second, most husband-wife households have two workers in the family. The wife is not at home. That means that there is significantly less time for household production in rural areas that, according to tradition, is supposed to save money. Moreover even if there is household production, the cost of inputs to make, for example, jam—sugar, jars, and so on and so forth—may very well be equal to or more than the cost of the purchased product. Home production may not return enough to add to household utility.

Well, what are the implications of this? It is important because as Bonnen explained this morning, the definition of poverty is based to a significant degree upon the cost of food. Food Stamp benefits are also based upon uniform assumptions about the cost of food. Rural America is again disadvantaged relative to urban American by these computational formulas because if this hypothesis holds for most of rural America as it does for Vermont, the cost of food is higher in rural areas, not lower.

One can expand this analysis. As a matter of fact, I would hypothesize that it is more expensive with regard to most goods and services to live in rural areas rather than urban areas. The lack of competitive distribution channels is important in many communities; however, there may be an even more pervasive and fundamental problem. Dunne, for example, argues that the delivery of quality education programs to rural children costs more because there are fewer children, higher transport costs, and other costs of isolation, not the least of which is the difficulty attracting top-flight teachers (Dunne, p. 55). Rather than being at the source of the distribution channel and being able to access finished goods and services more cheaply than urban consumers, rural consumers increasingly find themselves at the end of a distribution channel that flows from urban areas, or foreign countries via urban areas to rural communities. Rural consumers are at the end of the line. Thus goods and services of like grade and quality, if available at all, cost more even when distributive channels are organized competitively.

Clearly market-based strategies for rural development can be an important component in an overall rural development plan. The idea of voluntary efforts by the private sector, the civic leadership coalition, the pre-1929 classical approach that Phil mentioned can be effective, but I am enough of a Keynesian and a modernist to think that it's not totally adequate. The mixed economy is here to stay. We also need joint public/private initiatives. Fisher's idea of publicly provided venture capital is intriguing. Shumavon's (Russo and Shumavon) analysis of the role of nonprofit agencies is helpful.

Cooperatives, private businesses owned and controlled by users rather than investors, also have a role to play. Agricultural cooperatives, rural elective cooperatives as evidenced by Bob Bergland's activities, and other rural based cooperatives are extremely interested in these questions. Throughout most of this century cooperatives have played a major role in promoting efficient distribution of

productive inputs to rural America. They also have provided farmers with some control over the marketing of their products, created more efficient marketing channels, and increased the prices farmers receive. Given the current wave of mergers throughout the food system, however, even the largest agricultural cooperatives are small when compared to leading firms of the sector.

During the remainder of this century rural-based cooperatives face critical strategic questions concerning generation of investment capital, organization, and focus (Cotterill, 1987). For cooperatives to strengthen their role in the development of rural America, there needs to be continued public support for cooperatives via economic research, extension education, and public policies conducive to the organizational and operation of user-owned and controlled businesses (ACS).

As this last comment indicates, public policy has a role to play facilitating and channeling private initiatives. There is a need for setting the rules of the game. There is a need for information. Regional planning, which Peter is a professor of, is one approach. Another area that needs to be emphasized but hasn't been mentioned today is regulation. At the Federal level, the U.S. Congress and agencies like the Federal Trade Commission, the Interstate Commerce Commission, and the Department of Agriculture set policies that very often structure the terms of trade between rural and urban areas. If we are to promote equal opportunity for rural Americans, we need to look at the impact of these policies on rural development.

My concluding observation is that there is no systematic and co-ordinated research agenda on rural distribution channels, the appropriate mix of institutions and the interaction of private and public efforts to foster rural development. The work presented in this symposium is a very modest beginning. It is hard to envision an effective and efficient rural development policy that would not make the study of these issues a top priority.

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THE ROLE OF ENTREPRENEURSHIP IN RURAL ECONOMIC DEVELOPMENT

By Thomas G. Johnson ¹

INTRODUCTION

This paper addresses the issue of the potential role of private institutions in rural economic development. A narrow view of private development institutions would include such entities as chambers of commerce, nonprofits, and utility companies. A broader definition might include banks, business incubators, and venture capitalists. This paper adopts a much broader definition of private institution. It will consider the potential role in rural economic development of any nongovernmental entity. And since the overriding concern of this workshop is appropriate Federal policy, the paper will address the relationship between government and these nongovernmental entities.

The backdrop for this paper is the emerging national and world economic conditions. David Birch has referred to these emerging conditions as the "New Economy." This term alludes to the growth in economic activity among small, rapidly growing, technology or service based businesses in America. It refers to the important role played by entrepreneurship, innovation, risk or equity capital, and franchising.

The New Economy is basically good for America. It is vibrant and consistent with our societal goals and values. It does not, however, come without strings. It necessitates sometimes painful adjustment by labor and capital. It requires the reordering of certain well-established priorities (such as job security and mobility). Furthermore, it has significant distributional consequences. In particular, the New Economy has very important regional implications. *Inc* Magazine refers to America's "two economies" or, more specifically, as its "bicoastal" economy. To a large extent, the two economies coincide with and define rural and urban economies.

In *Inc*'s Annual Report on the States, 7 of the top 10 States in the climate for growth rating were on the Atlantic coast. In addition, the other three—Arizona, California, and Nevada—are on the Pacific coast, or are related to the growth of California. The important commonality among those other States not on this list is not their general lack of access to one of the oceans, but rather, their greater reliance on agriculture, forestry, mining, and traditional manufacturing.

America, while experiencing economic growth, has a serious economic development problem. If we look not at the average econom-

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ic growth but the distribution or balance of economic growth, we discover enormous diversity. Indeed, within the top 10 States there is a great deal of diversity. Georgia (fourth) and Virginia (fifth), for example, are really microcosms of the Nation. These States have dual economies of their own with areas of overwhelming (urban) vitality, on the one hand, and chronic (rural) economic decline on the other. If these States could cast off the stagnant portions of its economy, generally the more isolated rural areas of the Nation, their rate of growth and economic climate would be even higher. The stagnation of these regions does more than depress the national average growth rate, however. It leads to intolerable inequities.

THE PROBLEM WITH RURAL AREAS

Why have the economic benefits of this New Economy eluded so much of rural America? To answer this question, it is important that we understand the nature of the growth in those areas that are growing. The basis of much of this growth is innovation, and this innovation is generally occurring within small, entrepreneurial firms. David Birch has pointed out that between 1980 and 1986, Fortune 500 companies laid off a net 2.8 million workers while, overall, 1 million jobs were added to the U.S. economy. Which companies were creating these jobs? Eighty-three percent of new jobs were created by the fastest growing 5 percent of firms. Sixty-four percent of these firms started with an employment of less than 20 employees and 97 percent started with less than 100 employees.

This process of innovation and new business growth, has both contributed to, and responded to, the restructuring of the world economy. The process demonstrates America's comparative advantage in producing products which are in the early stages of their product cycle. That is, America has the requisite institutional, social, and economic climate to outperform other economies in developing ideas into profitable enterprises. Once the ideas and technologies begin to mature, other producers, employing different organizational arrangements and lower cost inputs, can often produce the goods and services more efficiently. In the mean time, the early innovator has often reaped considerable economic rent for their risk-taking and entrepreneurial inputs. In the past, the mature stage producers have generally located in the Northeast and Northcentral industrial regions, and in the rural South, depending on their specific input needs, and where costs could be minimized. Today, costs are often minimized by locating offshore. Rural areas, which formerly attracted industries to their relatively lower labor costs, are now in competition with Taiwan, Korea, and other rising economic powers. Even Japan finds itself losing industry to these countries as its comparative advantage rises to earlier stages in the product cycle.

THE POTENTIAL ROLE OF ENTREPRENEURIAL BUSINESSES IN RURAL AMERICA

The innovation stage is not an undesirable position to occupy on the product cycle for it is here that the greatest rewards lie. As a nation we must be prepared to capture the rewards, however. This entails being prepared for the frequent and rapid transition from

one type of production to the next as products cascade down the product cycle. Labor must be prepared to retool as skills and training become obsolete. We must have public and private leaders capable of anticipating emerging needs and appropriate strategies. We must have the public capital and infrastructure to make the massive investments needed to maintain our preeminence in innovation and research. Finally, if we are to succeed in this strategy, economic growth must be balanced and equitable. We must assure all regions, and all members of society access to the benefits of the New Economy if we are to have the necessary consensus to maintain support for the strategy. Rural areas in particular must join the mainstream of the New Economy. How likely is this to occur?

The role of entrepreneurial businesses in rural areas will be limited by the availability and quality of five fundamental ingredients: Innovation, entrepreneurship, leadership, infrastructure, and risk financing.

Innovation is not limited to urban areas, although as Fisher points out, innovations occur where innovators are and most of these are attracted to urban areas for a variety of reasons including the traditional location of innovation-spawning firms in urban areas and the superior availability of infrastructure and agglomerative services. Furthermore, innovation is probably stifled somewhat in rural areas by the lower levels of educational attainment. But if these are the only limits on rural development solutions would be fairly straight forward.

Entrepreneurship is difficult to define. There are those who maintain that entrepreneurs are born-not taught. While research is very limited, it is likely that entrepreneurship is related to environment. In some cases individuals take entrepreneurial steps when under unusual personal or financial stress, but it is likely that these individuals possessed the requisite abilities prior to the stressful event. Anecdotal evidence suggests that entrepreneurship is learned by example. It is the hypothesis of this observer that the dominance of large firms, highly subsidized agriculture, and undeveloped economies in rural areas has stifled, and is stifling, entrepreneurship, or as in the case of innovation, has driven it to urban areas.

Leadership is frequently deficient in rural areas for many of the same reasons that innovations are lacking. Leaders must usually migrate to urban areas to achieve their potential. Also, inferior educational attainment undoubtedly reduces the capacity of individuals to become, and function as, community leaders.

Rural areas have generally been disadvantaged in comparison to urban areas in terms of roads and highways. But infrastructure needs varies widely among different firms. Furthermore, the infrastructure needs of emerging firms will probably tend away from traditional infrastructure and towards telecommunications and air service. It is possible, then, that the historical distance related disadvantages of rural areas can be reduced through strategic investment in the new infrastructures. A positive policy of infrastructure development could bring the most remote areas of the Nation into the mainstream of the New Economy. However, if we miss the opportunity rural America may very well plunge deeper into economic stagnation.

Closely related to innovation is business financing—especially risk-capital financing. It is clear that together innovation and risk capital have had, and will have, an substantial impact on the location of economic activity. In general, venture capital is available only in certain urban areas, especially in the States of Massachusetts, New York, Texas, and California. Exceptions to this rule are those States that have developed public sponsored rural or statewide programs of venture capital.

As the paper by Fisher illustrates, the five ingredients above are closely related. Venture capital is attracted to entrepreneurs and to innovation. All three are attracted to infrastructure, leadership, and points of agglomeration. The location of entrepreneurial activity, then, seems to be subject to a disequilibrium process in which new business growth in some regions leads to even greater growth while stagnation in other regions drives out all the ingredients necessary for a reversal of fortunes. Indeed, the growing concentration of entrepreneurial activity supports this conclusion.

THE FISHER PAPER

The paper by Peter Fisher describes, very well, the issues involved in promoting small, homegrown, businesses in rural areas—their probability of success; the advantages of small, locally owned businesses over branch plants of large industry; the role and availability of risk capital (especially venture capital); and the role of, and potential for, government intervention in development finance.

Fisher lists as potential disadvantages of small firms, their tendency to be acquired by larger nonlocal firms when they become successful, the loss of competitiveness of independent firms to franchises, and the instability of small business. None of these criticisms seem very substantial, however. Just because a small local business is acquired by a larger nonlocal firm, this should not suggest that they are likely to contribute significantly less to the community. When this occurs, it is usually because the firm has matured and is about to become income oriented rather than entrepreneurial. At this point, the community will benefit most if the entrepreneurs devote their attention to other, more attractive opportunities, and leave the larger business to stabilize or move the business if that is what will enhance its income most.

Franchising is really another medium for entrepreneurial expression, especially for the franchisor. Franchising is a rapid growth, high-risk, high-payoff activity, often associated with specialized and high-tech goods and services. In 1986, one out of every three consumer dollars went to a franchise business. It is predicted that this will continue to grow and that franchising will rapidly expand to other nations around the world. Since franchises have more in common with independent firms than with either large nonlocal firms or chains, it is better to view them as part of the New Economy rather than in competition with it.

Fisher expresses the popular belief that small business have a high-failure rate. This argument is often used to caution against increased encouragement of small business. However, research has shown that 39.8 percent of new businesses survive at least 6 years. Of those that don't survive, many have simply exited the industry

without loss, have gone public, or have reorganized. In fact, many businesses disappear because they are successful, not because they fail. It is true that small businesses tend to be more dynamic than large firms, but if we are to bring rural areas into the New Economy, we must accommodate and adapt to this dynamism.

Fisher also suggests that transaction costs may be too high to allow innovations in rural areas and that this does not constitute market failure. However, reduction of these transactions costs is a reasonable approach to improving efficiency and a justifiable role for government. Fisher's argument that public venture capital programs may simply displace private investment is, in general, relevant, but of little concern in rural areas where there is essentially no venture capital activity at present. If, in the process of stimulating venture capital in rural areas, we displace some investment in urban areas, then this is probably justifiable on both efficiency and equity grounds.

IMPLICATIONS FOR FEDERAL RURAL DEVELOPMENT POLICY

What does this mean to Federal policymakers? There are several things that these observations suggest. First, blanket economic growth policies probably have little impact on economic development. If indiscriminant growth policies increase the rate of growth, it is likely that the benefits of this additional growth are small (or perhaps negative). Among the problems that local officials in America face, the problems related to stress from rampant growth in some parts of the Nation are accompanied by problems related to stress from economic stagnation faced in other regions. Thus blanket growth policies should be replaced by targeted development policies—policies that enhance income, job security, economic stability, and mobility. This is not to suggest that economic change be stifled. On the contrary, change should be accommodated.

A second conclusion is that the Federal Government should aid and facilitate the efforts of State and local governments to achieve their economic goals. Part of this strategy involves directing State and local efforts away from policies which conflict with, or compete with, the efforts of other States. Policies which attract firms, jobs, and investments from one State to another should be discouraged.

A third conclusion is that State and Federal development policy should treat each unique region of the Nation uniquely. If economic development programs are not targeted, then it is likely that the effects will gravitate to those areas where they are needed least. The Council of State Governments, in its draft policy statement for 1987, recommends that States "focus on the uniqueness of rural economies [because] statewide programs with a metropolitan focus, or bias, are generally not adequate to produce rural economic development." They go on to discuss the types of employment promotion most likely to succeed in rural areas.

RECOMMENDATIONS FOR FEDERAL POLICIES RELATED TO RURAL DEVELOPMENT

First, incentives to improve rural education must be offered. Better education would increase entrepreneurship, innovation, and leadership. It would also increase the productivity of labor, the

profitability of business, and quality of life. It would be especially useful to develop and promote entrepreneurial education.

Second, funds should be made available to create public-private venture capital institutions.

Third, the institutions above should address the issue of reducing transactions costs of doing business in more remote areas with relatively smaller investors. This may involve programs to provide rural venture capitalists with technical assistance related to the investments they are considering. Technical expertise on rural enterprises could then be made available to entrepreneurs and venture capitalists across the Nation.

Fourth, the Federal Government should support rural education, especially education in support of entrepreneurship. At present, many local governments have little incentive to provide high quality education, especially entrepreneurial related education because these skills simply disappear when students migrate.

Fifth, the Federal Government should support research designed to learn more about the process by which individuals become successful entrepreneurs. In particular, we must discover those conditions which will be especially effective in developing entrepreneurship in rural areas.

Sixth, current Federal economic development programs (in the Small Business Administration, the Economic Development Administration, the Department of Agriculture, etc.) should be redesigned to recognize the unique needs of rural areas, rural businesses, and rural entrepreneurs.

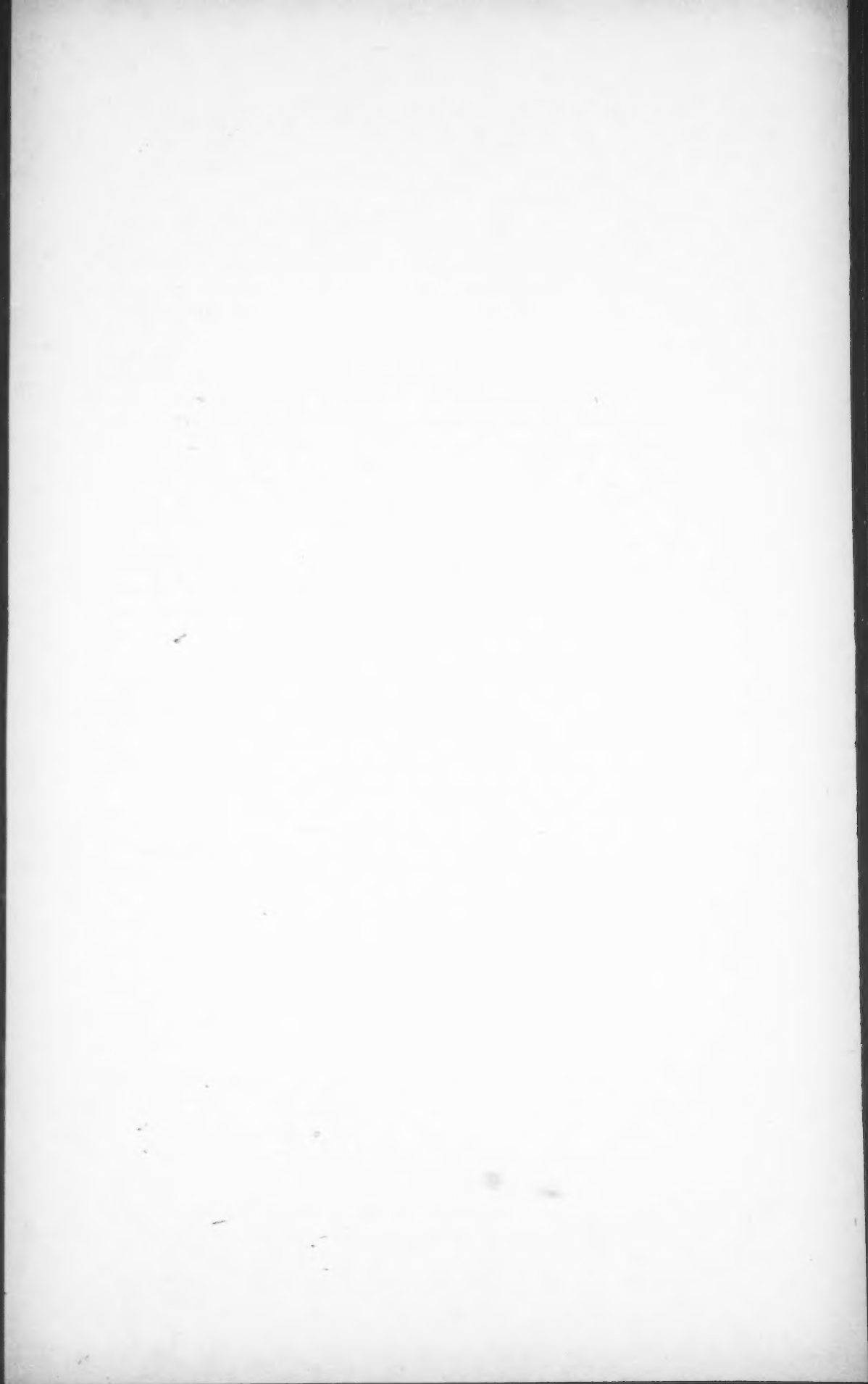
Finally, the Federal Government should review its policies related to infrastructure development to ensure that the needs of rural areas are being met. To the extent that infrastructure investments are made on the basis of projected population, and/or projected economic activity, without considering the impact that improved infrastructure would have on population and economic activity, they are contributing to the economic stagnation of rural America.

CONCLUSIONS

In conclusion, America needs an economic development policy which targets its efforts at the special needs of the Nation's stagnant rural regions. Efforts are needed to channel the benefits of our currently positive business climate into those areas which are lagging behind the rest of the Nation. America as a whole will benefit if all regions can be brought into the mainstream of the New Economy.

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IV. PANEL ON APPROPRIATE ROLES FOR GOVERNMENTS

Members of this panel were asked to address the issue of the most appropriate role for each level of government in designing and carrying out rural economic development policies to enhance income and employment opportunities in rural communities. Tom Stinson, who is on the faculty of the Department of Agriculture and Applied Economics at the University of Minnesota and the State economist of Minnesota, focused on the specific components of a Federal rural policy directed toward a people-in-place goal. DeWitt John, a staff economist with the National Governors' Association, reviewed what he termed a "renaissance in State economic development policy" and made proposals for a new alliance between Federal and State policies. Finally, Al Sokolow, a professor of political science at the University of California at Davis, discussed the role of "mainstream local governments" in rural development.

Scott Fosler, vice president and director of government studies for the Committee for Economic Development, was the discussant for this panel. Fosler commented that there is a clear relationship between economic development and social development: education and other forms of human resource development probably are the most important factors in economic development today.

Fosler concluded that the panelist's papers indicate that the State level is the appropriate place to begin to build a framework for more effective approaches to rural policy. The States have a critical role to play in the foundations of economic development: human resources, technology, capital formation, and physical infrastructure. They have a geographical advantage in that while they cover the entire United States, they have jurisdiction over a small enough area so that they can deal with the details of economic development policy.

Fosler thinks that local officials are taking more responsibility for economic development, in part because of political pressures to do so—the same kind of political pressures that have been felt at the State level in the last 10 or 15 years. By and large, local general-purpose governments have the principal responsibility for the provision of certain public services—and those public services are becoming increasingly important for economic development purposes.

Fosler sees a developing consensus that the Federal Government should no longer participate in detailed, categorical programs and that existing programs should be consolidated and block grants should be established. The issue is how to provide the limited Federal money that will be available in such a way that it can be most usefully tailored to specific needs at the local level. Fosler thinks that there is a Federal role in technical assistance, demonstration, experimentation, and information.

Fosler thinks that the issue of equity, of what should be done about distressed communities, is an important element of Federal policy, but does not think that the Federal Government's appropriate role has been identified, nor is there consensus on how to design practical programs to deal with the issue.

Fosler comments that it is important to facilitate intergovernmental relationships so that the initiatives and activities blend together. He suggests that the negotiated investment strategy developed several years ago by the Kettering Foundation might serve as a starting point.

Finally, Fosler noted that all three panelists had touched on the need to focus more on bona fide economic regions, which may not correspond to the boundaries of existing political jurisdictions. He thinks that the concept of rural areas as spatially separated neighborhoods is a useful one, and suggests that it should be an important role of Federal policy to identify and try to facilitate and encourage local governments to think in terms of regions and to redesign grant programs with this concept in mind. The States, because of their fiscal and legal powers, also have a critical role to play. Fosler concluded that: "... it is in identifying those bona fide economic regions and service area regions and facilitating the adjustment in those regions that I think intergovernmental policy probably has one of its major challenges."

Dave Brown commented that one governmental institution that had not been mentioned in the papers or the discussion is Cooperative Extension, which is an alliance between State, local, and to a certain extent, Federal governments. One problem, which Brown has encountered at Cornell, is defining the appropriate role of the Cooperative Extension Agent in local economic development. Should the Agents be advocates for growth and change in development or industrial development, or should they merely be providers of technical assistance? It is difficult to provide training for the Agents until this question is settled.

Brach said that many local governments will not welcome greater State participation, in part because historically States have assumed a regulatory role over localities; this may make it difficult, at least in some areas, for them to assume a partner or enabler role as opposed to a master or controller role.

Nagle questioned whether there had been enough change in the States to justify turning block grants over to them—can the States target assistance to the poor areas and people where the need is greatest?

John said that the whole dynamic of economic development is shifting and there is a very broad understanding that investment in poor people and the capacities of poor people is in everybody's interest in the 1990's. With regard to block grants, John commented that the term had a certain meaning or connotation because of the political history associated with their creation. He suggested that perhaps they should be redefined, even to the point of incorporating restrictions on practices associated with smokestack chasing.

Freshwater suggested that what Congress should do is establish a concept of national standards, for example to say we're not going to allow poverty, even certain pockets of poverty. One difficulty is deciding what level of standards is appropriate for different regions.

You may not need to build a tertiary treatment plant for a small town in Arizona, but you clearly need one in New York City. Other issues—appropriate wage gaps between rural and urban areas, for example—may not be so easy to decide.

With regard to Stinson's proposal for a federally subsidized revolving loan fund, Brach commented that the problem lies not so much in the lack of capital as the terms of loans. For example, must the borrower start paying it back right away, or is there a startup cushion? Also, in some areas it is ideas that are lacking, not capital. In some communities with revolving loan programs, the money isn't used because there is no local entrepreneurial capacity and talent to put together good ideas.

Fisher commented that this raised the question of what the criteria will be for awarding the loans. For example, will there be national standards? Will they serve as a secondary market for any local revolving loan funds, or will there be criteria for terms and riskiness?

Sokolow added one item to the list of knowledge-based deficiencies identified by an earlier panel: some understanding of the effects and the impacts and successes or lack of successes of Federal programs of the past. There is no overall assessment of what has worked and what hasn't and what the cumulative effects have been—that is, in a cumulative sense, on communities as complete institutions. If we're going to design new programs, we should know something about what old programs have done.

HELPING PEOPLE IN PLACE: FEDERAL RURAL POLICY FOR THE NINETIES

By Thomas F. Stinson¹

During the last three decades two themes have run through discussions on rural policy. One reflects a concern with opportunities for low-income rural residents. Those subscribing to this view see rural policy and antipoverty policy as close substitutes, if not synonymous. Perhaps the best expression of this view remains that in *The People Left Behind*, the 1967 report of the President's Commission on rural Poverty.

Others see rural policy as a means of ensuring that the style of life, standards, and values of small town America endure and that households have the opportunity to choose between living in metro and nonmetro environments. Secretary Freeman's "Rural-Urban Balance" efforts of the mid-1960's were once expression of this view. Those who favor this approach do not deny the need to help the rural poor, but they feel a true rural policy must provide explicitly for programs to halt an apparent divergence between the opportunities available in metro and nonmetro communities.

Sometimes simple titles have been used to classify programs. Activities directed toward improving the standard of living for low-income rural residents have been termed "people" programs. Those directed toward preserving rural communities, "place" programs. There has been a healthy debate about whether people or place programs are more effective, but often the debate has gone on without recognition that the underlying goals and expectations of the advocates differ.

That debate has produced a number of policy proposals and it has helped to shape rural development programs through the sixties, seventies, and eighties. But, because there has been confusion over which policy goals programs are supposed to serve, rural development initiatives have been very unfocused. One result of that ambiguity has been considerable difficulty in building a support base for a comprehensive rural policy.

Whatever insights the people versus place distinction gave to policy development now seem to be exhausted. Today that framework no longer appears useful for analyzing ways of meeting the needs of rural residents. This paper will briefly elaborate on why a "people in place" focus should be considered as the foundation for a longrun rural policy, then go on to describe principles for the Federal role in such a policy. It concludes with some specific components of a Federal rural policy emphasizing people in place.

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THE NEW RURAL POOR

The rural recession of the 1980's has changed the environment in which a national rural policy must be formulated. During the last 8 years many formerly strong local economies have grown increasingly fragile and vulnerable. Farmers have lost their savings and their land, and been forced to turn to low-wage jobs in town in order to survive. People working in the mines, the forests, and in rural manufacturing plants have been laid off and told their prospects of being rehired at their former position and pay were bleak. And, as the incomes of those living in the community dwindled, main street jobs have disappeared.

Long-term rural poverty continues to be a concern, but another problem has emerged. A new group of disadvantaged has been created, and this group and its potential longrun impacts must be the focus of today's rural policy. Incomes programs may be part of the solution, but a successful policy initiative will require more than income supplements.

This new target group has been labeled "the new rural poor" and for convenience I will continue to use that label. But that name may be misleading for program development, since the new rural poor do not share many of the characteristics traditionally associated with the rural poor. Instead, they are more closely related to the temporary rural poor described by Ross and Morrissey.

The new rural poor are not the elderly or disabled, nor do the heads of household lack the personal attributes needed to hold a job. Unemployment or underemployment is the primary source of their low income. At any one time many of these households may not even be considered poor under the Census definition of poverty. Instead, members of this group move in and out of poverty depending on local economic conditions.

The new rural poor are temporary poor, and the overriding goal for rural policy in the nineties must be to prevent these temporarily poor households from evolving into the persistent, or permanently poor and to prevent their once economically viable communities from institutionalizing a culture of long-term poverty.

This will be an enormous challenge for public policy. Because they are temporary poor, expanded levels of direct government support are unlikely to effectively reach this target group. And, because those in this group move into and out of poverty depending on the availability of employment, expanded education and training programs are less likely to be useful than job creation programs. Since many of the new rural poor are likely to remain in the rural communities in which they now reside, programs which ignore the need to improve economic opportunity outside the metropolitan areas are unlikely to prevent the conversion of many of the new rural poor into a permanent poverty population.

Research which contrasts the social costs and benefits of a program of treating the problems of the new rural poor by expanding opportunities outside the metropolitan areas with the current policy of tacitly encouraging migration to the urban centers is necessary. Such analyses must consider the full impact of rural migration, not simply its effect on the migrating individual's incomes. Careful analysis will include the increased costs of providing mini-

mum adequate levels of essential services such as education and health care for those who will, for sound economic reasons, remain in place as well as incorporating the long-term outlook for the children in those households which do not migrate.

The new rural poor are likely to be more successful migrants than were the rural poor of the sixties and seventies. But, the social costs of their migration may be greater than those of previous migrants. Migration of full families rather than single youth, for example, will place a greater strain on existing infrastructure and public service delivery systems at their destination. The existing urban poor also may be forced to absorb some additional costs since some crowding out from access to scarce social services and entry level employment is likely to occur.

Finally, the costs of retaining the new rural poor in their rural communities may not be as high as expected. Many in this group had made conscious decisions to live and raise families outside the metropolitan areas, choosing to forgo some income to obtain the style of life and values more readily available in smaller communities.

GUIDELINES FOR A FEDERAL RURAL POLICY

When costs of migration in the destination community are added to the increased aid which will be required to keep local government services at minimally adequate levels for those who remain, the substantial costs of dealing with the new rural poor through an explicit migration policy or through "benign neglect" become apparent. The likely magnitude of those social costs raises the presumption that an alternative approach—developing a program to meet the new rural poor's needs in place—may be a more efficient basis for rural policy.

Defining a comprehensive Federal program for dealing with the problems of the new rural poor is clearly beyond the scope of this paper. Certain principles or guidelines for formulating the Federal role are apparent, however. Those principles, described briefly below suggest, in turn, some specific policy directions.

1. Federal rural policy must not be based on the assumption that rural communities are going to die. Contrary to the conventional wisdom a decline in main street is not the deathknell for a community; it is only a signal that the region's economic geography is changing.

Certain rural communities are now evolving into lower order trade centers. In others, particularly the hamlets, fewer services are now offered. But, a declining commercial sector is not a signal that all the houses in the community will soon be boarded up. It is only a signal that a community's future role is being redefined.

Improved transportation and communication have changed the set of goods and services which must be provided in every community. Today's consumers, motivated by concerns over price and selection, are much more willing to commute to larger shopping areas than their parents were, and the result is that some local retail outlets are no longer needed. Just as urban neighborhoods did not disappear when suburban shopping malls developed, rural

communities will not die as main street activity continues to shift to regional shopping malls.

2. Viewing rural communities as spatially separated neighborhoods, interdependent and *not* self-sufficient, is a key step toward bringing realism to rural development planning in much of the Nation. Federal programs need to reinforce the idea that rural communities should view each other as cooperative neighbors rather than competitors. Programs which consciously pit one community against a neighboring community should be avoided.

3. Housing costs are an important equilibrating force in a spatial economy. The desires to live in a single family residence, and to own one's own home and land are extremely strong among those who grew up outside the central city. Individuals are willing to trade off substantial commuting time for the opportunity to obtain more desirable living arrangements. The existing stock of single-family housing in rural areas is a key variable which must be considered in formulating any rural policy.

4. Households consume publicly produced goods and services as well as those produced by the private sector, and the quality and costs of those publicly provided goods help to determine the overall standard of living available in a locality. Policy changes which increase the costs of local services in smaller communities, other things equal, encourage migration to the urban centers, accentuating problems in both rural and metropolitan communities.

5. Agricultural policy is not rural policy, but rural policy must not ignore the contributions of the agricultural sector. It has almost become fashionable among those concerned with rural policy to dismiss the contributions that agriculture and agricultural policy make to the rural economy. Diversification, attracting new manufacturing, import substitution, and creating high-value-added products locally often are offered as the solution for local problems.

Unfortunately, in much of rural America manufacturing simply cannot grow enough by itself to allow the local economy to recover. Healthy resource based industries—agriculture, mining, and forestry—are essential elements of many local economies. If these industries remain depressed many local economies will not recover even with growth in sectors outside those traditional industries.

6. Policymakers should begin their search for rural program alternatives by looking for points at which the market fails. If programs are identified which overcome existing market failures, Federal intervention will produce efficiency gains, increasing national output, and not merely transferring income from one group to another. Areas where market failures are commonly mentioned include insufficient information about opportunities in smaller communities and barriers to the free flow of capital.

7. Direct subsidies for rural development should be limited, visible, and well targeted. But, if changes in the institutional structure are necessary, those changes need to be given time for the necessary adjustments in the private sector to occur once they are made, rather than be continually subject to the uncertainty of the appropriation process. Automatic, self-financing programs should form the basis for Federal rural policy.

8. Federal policy must be designed to make sure that program managers at all levels, including those in quasi-public, and nonprofit organizations, as well as private sector participants have a stake in the program's success. Time spent with prospective borrowers in activities such as developing a realistic business plan and market evaluation prior to granting a loan, and in followup contacts providing technical assistance after financing is made available are said to be key factors enhancing success ratios of small business loan programs. Federal rural policy initiatives must make sure program administrators have a sufficient stake in the outcome to provide the screening and followup needed for successful operation of rural development programs.

9. Finally, attempts to define a Federal rural policy must be focussed on a specific target—the problems of the temporary or new rural poor, and on preventing those households from becoming part of the persistent poor and passing on a culture of permanent poverty to their children. If the rural policy agenda is allowed to become too broad, the energy behind it will be dissipated on issues in which the rural issue is secondary to the broader national policy issue.

Many public policy issues have important rural dimensions to them, but attempts to define a rural policy must focus on issues where the rural interest is dominant. Dealing with the needs of the persistent poor, for example, remain a key problem for rural communities, but this is a national problem, and solutions are not limited to those living outside the urban centers.

COMPONENTS OF A FEDERAL RURAL POLICY

If one accepts a "people in place" goal for rural development policy the scope of possible Federal actions becomes somewhat more focussed. Job training programs for positions not available within commuting distance are, for example, programs which would not be included since they do not enhance a household's ability to remain in a nonmetro community. Programs which expand the services available from the community or reduce the local cost of providing such services, on the other hand, could be an element of such a policy as could wage subsidies targeted to workers in nonmetro communities.

There is a long list of specific initiatives which could be part of a national rural policy based on the people in place goal. Several broad program directions consistent with that view and with the guidelines discussed earlier are described below.

AN EXPANDED FEDERAL ROLE IN RURAL CAPITAL MARKETS

Establishing a national rural development bank, or alternatively, expanding the Farm Credit System's lending authority to include rural economic development loans could provide a new foundation for rural policy in the nineties. Although the question of whether barriers block the free flow of capital into rural areas remains open, a rural development bank would expand the availability of credit in rural communities while adding only slightly to existing distortions in capital markets if there is no credit gap in rural communities.

Rural development banks have been proposed (and rejected) in the past, but the financial industry has undergone important structural changes in recent years. Those changes—bank deregulation, expanded interstate banking, and the weakening and in some instances failure of many small, rural banks—have reshaped rural capital markets. It is now time to reevaluate whether a rural development bank would improve the prospects for nonmetro economies.

Past opposition has centered on the argument that barriers to credit in rural areas could not be shown to exist, and that such a bank would simply add to the Federal bureaucracy without providing any additional assistance to rural areas. That objection may still be valid. However, the Farm Credit System's history indicates that an important, unmet niche in agricultural credit needs did exist, one which a quasi-public agency could fill. Such a niche may also exist in the business development loan field, for there is no reason to assume that nonmetro bankers are more likely to be meeting the capital needs of business development than they once were to meet the needs of agriculture.

A rural development bank fits well with the guidelines for public policy noted above. The actual subsidy would be low—assuming the bank is financed in the same way as the existing farm credit system—and the structural changes would not require continuing appropriations to remain in place. The quasi-public nature of the bank would also impose more market discipline on the evaluation of economic development loans than exists in many of today's public sector loan programs.

Loan officers would have a direct stake in the success of their loan portfolio, since defaults would carry through to the bottom line and be visible to all. Funds raised through bond issues would reflect the opportunity cost of funds available. And, because the scope of the bank would be regional rather than community specific, the bank could contribute to a broader regional focus for development activities.

A SECONDARY MARKET FOR REVOLVING LOAN FUND LOANS

Revolving loan funds currently are the program of choice in rural development. Their advantages are obvious—they offer a long-term solution to capital needs in rural areas by creating a pool of money which, in theory, can be used over and over to fund needy local businesses. Local development groups also like revolving funds because the local board has complete control over the distribution of those funds. Revolving loan funds are emerging in many smaller cities, with some States and foundations providing funds on a matching basis.

Small revolving loan funds have a major problem, however, one which greatly reduces their usefulness. The problem is that once a fund has loaned out its original capital, it may go dormant. It will take several years of repayments before sufficient funds accumulate to allow another loan to be made. Unless additional private sector or foundation contributions are obtained the loan fund will be without sufficient resources for operation or additional lending. This creates strong incentives for fund management to devote much of its time to seeking additional contributions to the fund

rather than monitoring and providing the technical assistance needed by its borrowers.

In practice revolving loan funds have a second problem. Because they are assumed to lend to more risky operations, many individuals—including some serving on loan fund boards—assume that revolving funds are a combination loan and grant program. The result is that often loan quality is not given sufficient attention and the likelihood of default not carefully evaluated. Delays of several years between the approval of a loan and ultimate accountability reduces the need for board members to focus on the long-term impacts of decisions and allows a desire for immediate action to dominate.

Local revolving loan funds also suffer because they do not have the ability to diversify sufficiently to adequately spread the risk inherent in their loan portfolio. Community funds seldom are able to lend to firms locating outside their community's boundaries, so the entire portfolio is subject to the risk of local business fluctuations. In addition, local revolving funds often are too small to include enough of the higher risk loans to provide sufficient diversification.

Establishing a secondary market for local revolving fund loans is one solution to the problems facing those funds in smaller communities. Such a program could be modeled after the well-known Ginnie Mae, Fannie Mae, and the new Farmer Mac (the Federal Agricultural Mortgage Corporation) programs. Existing revolving fund loans could be pooled—thus reducing the region specific risk and expanding the size of the portfolio to limit the impact of individual failures. Then the pooled loans could be sold as a group to other investors. The cash paid for those pooled loans would then be returned to the local revolving funds, providing them with capital for additional lending.

Private sector junk bond funds have shown that market exist for pools of riskier credits. That market could possibly be expanded by tax law changes which would provide incentives for foundations to purchase shares in these loan pools. Pools of such loans might also be appealing to State pension funds and other public sector funds as they receive increased pressure to invest a portion of their assets in building their State's future.

Existing Federal secondary mortgage pools are fully guaranteed, but full Federal guarantees may not be desirable for pools of revolving fund loans. A partial Federal guarantee would, for example, leave room for State participation by providing an additional partial guarantee. A full Federal guarantee also would remove the local lender's stake in the success of the project. Local fund boards who find that without a guarantee their loans have a market value of only a fraction of the face amount would be given a clear market signal to improve the quality of the credit they issue.

STRENGTHENING REGIONAL IDENTITY

Federal policy cannot mandate that rural communities carefully consider the economic welfare of the larger region before undertaking any new action. Indirectly though, through modifications in program rules and structure, identification with the regional economy can be enhanced. Rules for discretionary grant programs, for

example, could be revised to favor applications from coalitions of rural communities or counties, thus encouraging a broader geographic perspective on the part of local officials.

The goal is not to eliminate community identity or to discourage separate and distinct local approaches to particular types of community problems. Instead, it is to enable rural communities to free up additional resources and to develop more effective and realistic development programs by recognizing their local economy's interdependence with their neighbors.

Education and health care are fields where there should be particular emphasis. A special Federal program funding shared communications technology used by adjoining school districts is an example of a program which would reward regional cooperation. The contribution that a program like the A-95 program of the 1970's would make to improving regional identification should also be examined.

FISCAL ASSISTANCE FOR NEEDY RURAL COMMUNITIES

When incomes decline households cutback on their consumption of all goods and services, including those provided by the public sector. When local property values decline dramatically, as has happened in many farm dependent communities, the level of spending on public services such as education drops again. Elimination of Federal revenue sharing—the only source of Federal aid obtained by most rural local governments has only worsened the financial squeeze facing many rural communities and “new federalism” has become a code word for cutbacks in public services.

Lost funding in other areas—such as EPA's phaseout of their wastewater treatment grant program after most metro communities have obtained grants, but before needed projects in rural areas are funded—only further worsens the financial problems facing previously stressed rural communities.

A rural policy designed to prevent the institutionalization of a culture of poverty in formerly self-sufficient rural communities cannot ignore the needs of the local public sector. Cutbacks in public education and in the availability of health care are the first steps in a process which produces intergenerational poverty. A program of targeted general purpose assistance designed to ensure that minimum adequate levels of public services remain available in financially stressed communities must be a key component of any rural policy initiative.

CONCLUSION

The drought of 1988 has created a window of opportunity for those seeking structural changes to help revitalize rural America. This summer's reduced yields have drawn down grain stocks and raised commodity prices producing expectations of lower than anticipated farm program costs for the next 2 years. Some of those farm program savings could be allocated to financing a major rural policy initiative, if a consensus can be reached on goals for a national rural policy.

Rural America faces a number of problems. Its special needs were ignored during the eighties, and the safety net for rural com-

munities removed. Pockets of temporary poverty are emerging where local economies once were strong, and a new group of disadvantaged have appeared, adding to the already disproportionate numbers of poor residing outside the metropolitan centers.

Many national issues—education funding, education quality, health care costs and accessibility, housing policy, and environmental policy—have distinct rural components. All are candidates for inclusion in a national rural policy statement, for too often rural interests are underrepresented when national policies which affect the standard of living and quality of life in communities outside the metropolitan areas are formulated.

Prospects for changes in many of those programs are slim, however, because the rural issue is secondary to a broader national issue on which there is no agreement, and it is unrealistic to expect a satisfactory solution to the rural component without a complete revision of national policy.

This paper argues that the new rural poor should be the focus of rural policy, and that the goal of that policy should be to prevent the evolution of those new pockets of temporary poverty into areas ingrained with long term, intergenerational poverty. To move toward that goal a strategy designed to deal with the problems of people in place appears likely to be the most effective and the most economically efficient.

The new rural poor are an attractive target for rural policy because their problems are recent enough to leave them tractable to public sector intervention. By moving soon, before the existing low-income problems are complicated by associated problems caused by underinvestment in human capital and public services it may be possible to avoid locking additional households into a cycle of long-term, intergenerational poverty.

The goal of rural policy should not be to return each nonmetro community to the position it occupied in the economic hierarchy during the 1950's, for the changing roles rural communities are playing on the economic landscape must be recognized. Instead, national policy must recognize that people are going to continue to live in rural communities and that it is in the Nation's interest to ensure that those who do, and their children, do not become second-class citizens.

NEW ALLIANCES FOR RURAL AMERICA

By DeWitt John¹

This paper makes five points:

(1) There has been a renaissance in economic development in the past decade, including a much more active role for State governments.

(2) This renaissance is a fundamental change, not something temporary. It entails a restructuring of certain aspects of our Federal system, analogous to the restructuring of American industry in the face of increased world competition.

(3) If Federal rural development initiatives are to be effective, they should be restructured to work in tandem with the new generation of State initiatives. Most Federal rural development initiatives have bypassed the line agencies of State governments.

(4) As a way of crystallizing the debate about how States, local governments, and the Federal Government can work together in the future, four new alliances are suggested, including a new alliance for distressed areas in rural and urban America.

(5) There are major political barriers to putting the new alliances into place. To surmount these barriers, the paper concludes by suggesting an alternative to block grants—coordination as pork.

From this short summary, it is apparent that the paper focuses primarily on one kind of rural development—development which seeks to stabilize or increase the local economic strength. The indicators of such strength may include total employment, average wage, family income, economic diversity, and immunity to economic ups and downs.

There are, of course, many nonmetro communities where this kind of development is not the primary policy goal. Adjacent to rapidly growing metro areas and in rural areas blessed with outstanding scenery and climate, the problem is not attaining economic growth but managing economic growth to maintain the quality of life, to preserve affordable housing, and to meet the needs for growing infrastructure. There are other rural areas where the policy objective is to break through decades of chronic poverty or to rectify severe inequalities in the distribution of income and power.

One other introductory point. This paper approaches rural development as part of a broader problem, of economic development in all regions. It is important to recognize the distinctive problems and potential of rural America. One of the four alliances would include a set-aside for distressed areas including distressed rural areas. It is also important to see rural America's economic problems in context, to recognize the links between rural and metro

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areas, and to build a sensitivity to rural areas into all economic development efforts.

1. THE RENAISSANCE IN ECONOMIC DEVELOPMENT POLICY

It is widely recognized that States are taking on new responsibilities for the health of their economies. Several books and political campaigns have been based on this fact. Let me summarize what is happening and also comment on what is not happening.

This is happening:

State spending on economic development increased sharply, at the same time that Federal spending on economic and community development programs has dropped by 30 percent. Budgets of State economic development agencies have quadrupled in the 1980's.²

The renaissance is a change of character as well as scale. A new array of State economic development programs have been borne:³

Small and new business.—States have recognized the disproportionate number of jobs created by new firms and the dynamic minority of small, rapidly growing firms. The result is new programs to provide financial and technical assistance to small and new businesses as well as efforts to adjust tax and regulatory structures to favor them.

Science and technology.—In a competitive world, success depends on linking scientific progress more tightly to the development of new products and services. For a State, it means developing closer links between universities and industry; for firms, it means enlisting the research community as a partner in industrial progress and speeding the application of scientific advances to the marketplace.

Exports.—In a competitive world, economic success also means capitalizing quickly and precisely on new market opportunities. For many firms, this involves a new focus on overseas markets. For States, it means new efforts to promote exports and raise the general level of understanding of foreign markets, languages, and customs.

Human skills.—To maintain a high standard of living, Americans must be more productive. This requires not only better equipment and more up-to-date technologies but also a high level of human skills. States have recognized high-quality public schools are the basis of a sound economy; workers must have adequate opportunities and incentives to refresh and upgrade their skills.

In addition to new programs and more money, the renaissance includes a change in the purposes of State economic development initiatives. The definition of a "favorable business climate" is changing. Traditionally, it meant a low-cost business climate with

² DeWitt John, *Shifting Responsibilities: Federalism in Economic Development*, Washington, DC: National Governors' Association, 1987, p. 1.

³ For a comprehensive analysis of these new programs, see Marianne K. Clarke, *Revitalizing State Economies* (Washington, DC: National Governors' Association, 1986); National Governors' Association, *Jobs, Growth, and Competitiveness* (Washington, DC: National Governors' Association, 1987); David Osborne, *Economic Competitiveness: The States Take the Lead* (Washington, DC: Economic Policy Institute, 1987); and Committee for Economic Development, Research and Policy Committee, *Leadership for Dynamic State Economies* (New York: Committee for Economic Development, 1986).

low taxes, a light regulatory burden, and perhaps low wages. For some industries, this definition is still valid. But as states try to maximize the high-tech, high-skill, high-wage portion of their economies, other factors are as important as low taxes and reasonable regulation. High-tech, high-skill firms also are concerned about the quality of the university system and of the public schools, the linkages between universities and industry, the availability of modern telecommunications systems, and the availability of capital to new and innovative businesses.

The choice is not really between the traditional "low-cost" strategy and the new "high-quality" strategy. Some of the States that have made the largest investments in technology, expert promotion, and other new programs also have cut taxes, streamlined bureaucracies, and rationalized or lightened the regulatory burden. Tax structures can be adjusted to promote investment in research, venture capital, and pay-for-productivity schemes. Some of the new initiatives, such as raising teacher salaries or establishing new applied research centers at universities, can be relatively expensive and make it harder to cut taxes; others are relatively inexpensive.

The goal is, in fact, neither a low-cost nor a high-value climate, but rather an entrepreneurial climate. An entrepreneurial climate is one in which individuals and institutions compete, take risks, place a high value on economic development, and are willing to invest energy and resources in growth. An entrepreneurial climate is one where the primary focus of State economic development initiatives is to aid existing businesses and to encourage the formation of new firms, rather than to recruit branch plants.

Here are some things that are not happening.

First, industrial recruitment is not going away. The new initiatives to aid existing and new businesses are probably growing faster than recruitment activities, but in most states, both are growing. (Unfortunately, there is virtually no hard data available to support this assertion. More on this point later.)

There are signs of willingness to deal with the fact that industrial recruitment is often a zero-sum game, i.e., when the competition takes the form of subsidies rather than investments that enhance the productivity of the State's economy. States are seeking ways to limit zero-sum recruiting. Some individual transactions have been questioned as poor uses of public funds. A Task Force of the National Governors' Association called this summer for a code of best practices for recruitment.⁴ The 1987 plan of the Iowa Department of Economic Development says, "It seems that in the short run Iowa must play this economic development game (recruitment) to limit its losses, but it should also cooperate with other States to reduce self-defeating competition, and continue to improve the business climate of Iowa so that such incentives are no longer necessary."⁵

⁴ *New Alliances for Rural America: Report of the Task Force on Rural Development*, National Governors' Association, Washington, DC, 1988, pp. 40-41.

⁵ Iowa Department of Economic Development, *New Opportunities for Iowa: Strategic Planning Recommendations for Economic Development*, Executive Summary and Recommendations, p. 4, March 1987.

A second thing that is "not happening" is that the States are not marching in lock step. The renaissance is uneven. Some States are more innovative and invest more in the new style of economic development.

By and large, the differences have followed regional rather than partisan lines. Some States, especially in the industrial Northeast and Midwest, were hit hard by the recessions of 1980 and 1982 and by increased foreign competition in the early 1980's. Many of these States also had traditions that allowed for more interventionist economic policies. Spurred by economic adversity, they revamped their economic development policies and established many new programs.

Other States now are considering how much they should invest in new economic development programs. In some States, there are constitutional barriers that make it difficult for the State to provide direct financial assistance to private firms, and this can slow the adoption of some of the new programs.

The third thing that is "not happening" is that there is little hard evidence about the effectiveness of the new State initiatives. Some States, like Pennsylvania, have gathered extensive information about the private dollars that have been leveraged and the jobs that have been created in firms that were aided by State programs. Other States, especially Massachusetts, have been studied closely by experts. Scott Fosler's verdict, reviewing findings from 7 states, is:

None of the authors believes that the States will be able to exercise more than a marginal influence on their economies. But all seem to feel that those marginal influences could play a constructive and perhaps decisive role in helping their private sectors and citizens adapt to a changing and more competitive world economy.⁶

We should put this judgment in perspective. How effective have Federal economic development initiatives been? The record is mixed. In addition, how effective do we want public initiatives to be? Our economic and political system is built on private initiative, not government direction. The best strategy for States is not to buy economic development on a retail basis, job by job, firm by firm.

The newer style of economic development programs looks beyond individual transactions to the productivity of the State's economy. The goal is not only to "buy" jobs directly by providing incentives on a deal-by-deal basis, but to catalyze broad institutional change so that businesses, universities, schools, and workers respond more quickly and effectively to economic challenges and new opportunities.

To do this, States work through public-private partnerships, the financial industry, and educational institutions. The State role is to articulate a vision of how local economies might change; enlist private sector leadership in developing economic policy and in delivering programs; target resources to assist in the transitions to new

⁶ R. Scott Fosler, ed., *The New Economic Role of American States: Strategies in a Competitive World Economy*, Oxford University Press, 1988, p. 328.

economic realities; and establish performance standards and incentives to guide institutions in new directions.

For example, Governors, university presidents, and industrialists have established new public-private partnerships to stimulate closer links between researchers and businessmen. Thus, research agendas can be driven by industry's needs and new technologies can be applied more quickly to commercial products.

The changes that may result from these activities are hard to measure and difficult to trace any single cause. It is important to devote more resources to gauging the impact of State economic development initiatives, but we should be realistic about the difficulties involved in evaluation.

2. THE RENAISSANCE IS A STRUCTURAL CHANGE

The decline of Federal leadership and the renaissance in State economic policies are more than a temporary phenomenon, arising from recent political and budgetary factors. Short-term factors are at play, including cutbacks in Federal economic and community development programs during the Reagan administration and the tightness of the Federal budget since the tax cuts of 1982 and well into the foreseeable future.

However, the renaissance involves much more than a simple replacement of Federal dollars with State dollars. It is an effort by States, local governments, and the private sector to respond effectively to profoundly changed economic conditions, which are summarized by the well-worn phrases "competitiveness" and "global economy."

So much has been written about "competitiveness" that sometimes a better word would be "repetitiveness." I will not repeat the story you have heard so often—just reference it:

Rapid technological change;

Tough competition from imports;

Manufacturing which involves locating different stages of production in different countries;

Rapid growth in the literacy and technical skills of the work force in several other countries coupled with serious educational deficiencies in the United States;

Worldwide integration of financial markets;

Worldwide rejection of centralized economic planning;

Unstable exchange rates and turbulence in financial markets;

Slow evolution of voluntary cooperation by the leading "Free World" countries in managing exchange rates and interest rates; and

Recognition of the importance of entrepreneurship, rapidly growing small businesses, and innovation as important to competitiveness.

Much of the debate about competitiveness has focused on what private industry or the Federal Government should do to make the U.S. more competitive. The Federal agenda include important macroeconomic objectives:

Reducing the budget deficit;

Creating more incentives for savings, to raise the savings rate;

Working with our major trading partners, to fashion steady monetary and fiscal policies and exchange rates that provide a climate conducive to economic growth;

Reducing the burden of debt on Third World countries; and
Broaden the scope of GATT.

In addition, governments must adopt policies that help businesses, workers, and communities to increase their productivity, to innovate, and to adapt to rapid change and uncertainty. All levels of government have roles here. But in an economy characterized by uncertainty, volatility, and rapid change, a decentralized approach has several advantages:

Flexibility.—First, turbulence, uncertainty, and change put a premium on flexibility. In a country as diverse as the United States, it takes a long time to achieve coherent national policies. Once in place, there are strong pressures for national policies to be implemented uniformly across the country—for example, to make more and more communities eligible for programs and to have standardized operating criteria and rules of procedure. A system of 50 State-designed policies is inherently more flexible, more able to take advantage of new opportunities and accommodate to new economic conditions. As States compete for economic growth, they constantly scan the economy for new opportunities that can be turned to their advantage. This competition will ensure that public policies for economic development are responsive to changing conditions.⁷

Experimentation.—Second, turbulence, uncertainty, and change put a premium on experimentation. States have always been the laboratories of the Federal system and are well suited to conduct this experimentation. For example, one of the most controversial and important policy choices is that of industrial policy—whether government, in partnership with business and labor, should design economic strategies and target public and private dollars to specific economic objectives. If a national industrial policy were adopted that suppressed individual and corporate incentive for innovation, the consequences for the economy could be severe. As Britain did, the U.S. might drift into a downward cycle of subsidies, protectionism, and stagnation.

But State-level industrial policies minimize the risk. Should it develop that industrial policy in general, or specific forms of industrial policy, do not work in the long run in the U.S., then only those States that have adopted such policies will suffer. Furthermore, competition between the States and mobility of labor and capital between States would break a downward spiral more quickly than if an industrial policy were national in scope.

Partnerships.—Third, turbulence, uncertainty, and change put a premium on working across traditional institutional lines. To respond to the challenge of competition, we will have to learn to break the rules that divide academia from industry, business from

⁷ The following several paragraphs are from *Shifting Responsibilities*, pp. 7-8.

government, and one government agency from another. New kinds of private corporations for public purposes will be needed.

States have a much better track record than the Federal Government in recent years of forging partnerships across institutional lines. Several States have established close working partnerships and new public-private institutions which link business, labor, government, and other interests for managing State economic development activities. At the Federal level, proposals for similar cooperation have made little progress.

There is a pattern of generational renewal in Federal and State bureaucracies. Many Federal programs were established years ago and still operate with the same broad purposes originally established. In contrast, many States have recently reorganized their economic development programs and established new agencies. There is a pendulum effect, with leadership and creativity first at one level of government and then at another. In economic development it is now the hour of the States.

Human Resources.—Fourth, turbulence, uncertainty, and change put a premium on human skills. It takes intelligence, broad education, willingness to refresh one's skills, and access to the opportunities for retraining to make one's way in a world of rapid technological and economic changes. States, and local governments, have traditionally been the level of government which has designed, managed, and provided most of the funding for public activities for training and education. State and local leaders bear the responsibility for the most critical element of our competitive positions.

Competition.—Fifth, turbulence, uncertainty, and change put a premium on policies built on the assumption of competition. At the Federal level, there are strong pressures to organize policy around opposition to change. Because of the size of our economy, there is a constant temptation to seek shelter from change by shielding our industries from foreign competition. The interests that seek protectionism are well organized at the Federal level. In contrast, States take competition for granted. They lack the resources to protect their economic base from competition. They have neither the funds nor the legal power to make protectionism work.

Two hundred years ago, in the debates on the Constitution, James Madison argued for a strong Federal Government because it would be less likely to be captured by powerful minority interests seeking private gain. The advent of the global economy has stood this argument on its head. The Federal Government is now more likely than States to be influenced by powerful interests seeking to protect themselves against economic change.

Some things cannot be done effectively by State governments. Only the Federal Government can transfer resources from rich States to poor States or from States that are booming to States that are temporarily distressed. Only the Federal Government can capture the economies of scale involved in some investments, such as investment in basic research.

Also, economic development is an intensely local process, so States cannot plan or direct it from above. Jobs are created firm by firm, deal by deal. Furthermore, the local economic and political climate can have an important influence on economic growth.

The relationship between State leadership and local initiative is worth exploring in some detail.

Last year, we conducted a study of rural counties in seven Farm Belt States, asking the question: Why do some communities grow when their neighbors do not? The research, reported in *A Brighter Future for Rural America?*, focused on 548 rural counties in seven Farm Belt States (North and South Dakota, Nebraska, Kansas, Oklahoma, Missouri, and Iowa).⁸

With assistance from Ken Deavers and John Hession of the Economic Research Service of the U.S. Department of Agriculture, we constructed a statistical model to predict employment change in 1979-84. The model included 15 variables which are widely thought to be important factors in determining which rural communities grow and which do not.

The model explained only 17 percent of the variance—not much, but not significantly less than many other studies with similar goals.

We then examined in more detail the 48 counties where employment gains were quite high. Some of these counties grew because they have special features that attract growth, such as natural beauty or location next to a growing metro area. Others boomed and later busted, when large local construction projects were completed or when oil prices fell. Other rural areas grew “against the tide”—steadily, but without any special advantages.

A key to success in these communities was sustained, broad-based local economic development efforts, led usually by business people with the active support of local officials and significant financial support from state and federal programs.

From the viewpoint of State and local leaders, these findings are encouraging. They suggest that a county can hope to grow economically even if it is not adjacent to a metro area, lacks access to an interstate highway, has no local State university, does not include a large town, and has only average levels of family income, college-educated workers, and Federal development funding.

The findings also suggest the difficulty of using objective economic and demographic data to predict which towns will grow and which will not. Perhaps other, more sophisticated models, would do better. But predicting *characteristics* associated with growth is far easier than predicting which *specific* towns or counties will grow most rapidly. And it is this second question that faces State officials—should they put their scarce resources into Centerville or Pleasant City?

Our conclusion was that rural economic development must remain a “grassroots,” bottom-up process. Triage—using an objective set of economic and demographic criteria to decide which communities will grow and where States should invest their resources—will not work. States must ration scarce resources, but not by triage. A grassroots strategy would give all communities some assistance, in the form of leadership training and technical assistance, to get themselves organized for economic development. It would increase the flexibility in State regulations for hospitals,

⁸ DeWitt John, Sandra S. Batie, and Kim Norris, *A Brighter Future for Rural America? Strategies for Communities and States*, National Governors' Association, Washington, DC, 1988.

education, highway finance, and economic development programs. And then communities should compete for economic growth, if that is what they desire, on the basis of how many resources they mobilize and how well these resources are orchestrated.

In short, structural change in the responsibility for economic development is not a simple matter of States taking over responsibilities from the Federal Government. It involves reorganizing responsibilities to encourage and support a diverse array of local and regional efforts to increase the productivity of the local economy to make it more competitive in the global economy. States will take on more responsibilities because they are the only political entity that approximates regional economic clusters. The responsibilities of the Federal Government are not diminished, just different. The responsibilities of local governments and perhaps regional entities are greater.

3. BRINGING STATES INTO FEDERAL RURAL POLICIES

As States assume new responsibility for economic development, the Federal role will also shift. In the past, most Federal rural development programs have bypassed States in favor of a direct link to local nonprofit organizations, individual farmers, and communities. Other Federal programs which do have a State link, such as the Extension Service and the Cooperative State Research Service, work through land-grant universities. In many cases, this means that these programs have only loose linkages with the new generation of State economic development initiatives, which are located in departments and agencies that are much more directly tied to the Governor's offices.

The Federal investment in rural America has brought substantial benefits, including rural electrification, water development, better housing, higher prices for farm products, and the growth of land-grant universities, research labs, and the Extension System.

But in recent years, Federal funding for these programs and others which benefit rural communities has declined, while the number of programs has not dropped substantially. The result is a maze of overlapping, underendowed, conflicting agencies—few of which have close working relationships with the State agencies that are participating in the renaissance of State economic development efforts.

In the words of Governor Tommy G. Thompson of Wisconsin, a member of the 1987-88 National Governor's Association Task Force on Rural Development, "It was gratifying to me to see so many different State and Federal actors involved in rural development. It is also evident to me how confusing this large number of governmental agencies and programs might be to local entrepreneurs and business people seeking to start new businesses or expand existing ones. We need to make it easier for rural citizens, governmental official and business people to access these programs."⁹

A grassroots approach for Federal rural policy would give rural communities much more latitude in combining Federal programs

⁹ Quoted in *New Alliances for Rural America: Report of the Task Force on Rural Development*, p. 43.

and determining which local organization would be responsible for managing them at the local level. This would require a major restructuring of Federal rural programs, with some consolidation of existing programs, significant delegation of authority to States, encouragement of multicomunity efforts at the local level, and great flexibility in the use of Federal and State funds. The Federal Government would continue to have a role in rural policy, but it would be a new role, with more emphasis on moving funds to regions suffering sudden or long-term economic distress and on providing technical assistance and information to States and local communities.

4. NEW ALLIANCES

This section of the paper makes a specific proposal for restructuring the Federal-State-local relationships to give States. The proposal also recognizes the "bottoms-up" nature of the economic development process and the need for a Federal role.

The proposal was first advanced in *Shifting Responsibilities: Federalism in Economic Development*, which was published earlier this year.¹⁰ Since then, several of the ideas in the book have been embraced by the Governors as official NGA policy or in task force reports.

The book proposes four alliances.

One would be an *Alliance for Regional Economic Policy*. It would support demonstration projects, document new State economic development initiatives, and evaluate these initiatives.

The Federal Government should be involved because there is a national interest in encouraging and assessing the new crop of State, regional, and local economic development initiatives. Currently, there is no systematic effort to treat independent initiatives as experiments.

The trade bill passed this year took an important first step toward this new alliance. It mandates the Department of Commerce to establish a clearinghouse on State and Local Initiatives on Productivity, Technology, and Innovation. NGA has just begun working with the National Bureau of Standards to compile a database on State technology initiatives.

The alliance for regional industrial policy could go further, to support demonstration projects on a cost-sharing basis and to conduct formal assessments of State and local initiatives.

Also proposed is an *Alliance for Export Promotion*. Its goals would be to provide American firms with much better information about foreign markets and to improve the quality of technical assistance provided to small and midsized businesses. The Federal Government would substantially increase its investment in intelligence about foreign market opportunities. States would assume responsibility for making information and technical assistance available to firms, as part of a broader array of assistance to small and medium-sized firms in growth sectors. States could assume the re-

¹⁰ DeWitt John, *Shifting Responsibilities: Federalism in Economic Development*, Washington, DC: National Governors' Association, 1987, p. 1.

sponsibilities for the district offices of the U.S. and Foreign Commercial Service.

To keep Federal and State activities linked together, the Federal Government could provide partial support for the technical assistance activities, and States could purchase the market intelligence from the USFCS.

The third proposal is for an *Alliance for Applied Technology*. It would involve closer working relationships between State and Federal technology initiatives, but no systematic Federal funding of programs operated by State and local governments.

The Federal Government has long been the dominant player in science and technology policy. This is appropriate for several reasons. The most first obvious one is that although an individual State can frame its own economic development strategy, addressing its unique resources and industrial mix, there is no such thing as Ohio science or Montana technology. Scientific information is highly mobile and cannot be captured for more than a few weeks in any city or State.

Many States have invested in science and technology—not only in operating State universities but also in research parks, technology extension, seed capital funds, applied research grant programs, university-based and industry-supported centers for applied technology, and other initiatives to speed the application of research for commercial purposes. State spending for these programs was estimated 2 years ago at between \$400 and \$500 million, far less than Federal R&D spending of \$65 billion in fiscal year 1988.

The State role is twofold: helping to make State universities more open to close collaboration with industry, and creating programs in niches where a comparatively small investment can galvanize technology transfer between a locally important industry and scientific laboratories or universities.

The new alliance would include mechanisms to blend independent Federal and State initiatives, such as explicit direction to the National Academy of Sciences and the National Science Foundation to provide technical assistance to State and local technology programs, better coordination between State and Federal investments in applied research centers, participation of State and local officials in the peer review process for Federal grants to these centers, and representation of State and local officials on advisory and governing boards for Federal agencies that are involved in science and technology.

Although none of the first three alliances would be targeted to rural areas, they would be important for rural America because of the many economic links between rural and metro areas. The *Alliance for Economic Revitalization* could include an explicit earmarking of funds for distressed rural areas. This alliance would be the vehicle for Federal aid to distressed communities. It would bundle together many existing programs and provide State and local leaders with a greater flexibility in the use of Federal money. Distressed communities in rural and metro America are widely diverse. In some, the key to revitalization might lie in building a water system; in others, aid to entrepreneurs or improvement of the public schools.

This alliance could be designed as a classic block grant—bundling together the Economic Development Administration, Community Development Block Grants, major parts of the Small Business Administration, Farmers' Home Administration community and development financing, and perhaps some Tennessee Valley Authority, Rural Electrification and Appalachian Regional Commission Development activities. There could be passthrough requirements to ensure that local governments received funding. There could be set-asides for rural areas. The National Governors' Association Task Force on Rural Development proposed that "a small portion of the money now spent on price supports could be made available to State and local governments for diversifying the economic base of rural areas." Such funds would be directed to a new alliance for rural America.

The Task Force also proposed an alternative that might be better than the classic block grant—a locally designed block grant. The inspiration for this proposal was the Governors' recognition of the bottom-up nature of development and the example of the Canadian Community Futures Program. In a locally designed block grant, a regional grouping of local officials would design their own plan for blending Federal and State programs into a coherent local block grant. States would support the planning process and would help in seeking waivers. Federal legislation might be required to set the guidelines for local planning and perhaps for approval of the package. The Governors' specific proposal is detailed in Figure 1.

5. PRACTICAL POLITICS—COORDINATION AS PORK

To one steeped in Federal rural policy, these new alliances may seem foreign. Certainly they run counter to long-established political understandings and coalitions. If they have merit, it will be because the old ways of doing business are not working, because it is now important for regional economies to organize and invest in their productivity, and because States are learning to do this effectively.

Will it be possible to reshape political coalitions to support new alliances for economic development? Some pieces of the coalition are forming: the National Science Foundation and the National Academy of Sciences are reaching out to States, Congress has created a clearinghouse on State and local initiatives, several agricultural interests such as Pioneer Hybrid International and Communicating for Agriculture have adopted rural development (including economic diversification) as an important policy goal, and the U.S. and Foreign Commercial Service has an aggressive program of close cooperation with State export programs as an alternative to closing the district offices.

Congress holds the key to new alliances. There is a great deal of skepticism on Capitol Hill about the new wave of State economic development initiatives and also about block grants. In closing, let me suggest a way to give Congress a stake in new alliances. This is not a specific proposal and certainly not NGA policy. It is not even my idea; I am borrowing it from David Freshwater.

FIGURE 1.—A locally designed block grant

Elements:

Encourages neighboring communities to plan for regional economic development.
 Consolidates multiple Federal, State, and local programs at the local level.
 Requires agreement on a single agency to be responsible for overall performance.
 Requires statement of the roles and responsibilities of other agencies.
 Specifies criteria to be used, including performance measures, for holding the participating agencies accountable.

Activities to be included:

To be decided locally—participants could include vocational technical schools and community colleges; federally funded and State-managed programs like the employment service, Job Training Partnership Act (JTPA), and Community Development Block Grant (CDBG); local organizations like the county farm bureau or farmers union, chambers of commerce, and school districts; organizations that are supported by the Federal Government, including regional planning organizations, Farmers' Home Administration offices; and the Cooperative Extension Service, which receives funding from Federal, State and county governments.

*How to make it happen:**1. The rural communities:*

Work with neighboring communities to develop a clear "vision" of economic development objectives.

Conduct a preliminary scan of agencies whose involvement is needed to implement the strategy.

Obtain an agreement of agencies and leadership to participate in a community problem-solving process, using a neutral facilitator.

2. The State:

Awards a small grant to support a detailed planning process.

3. The communities:

Custom design a proposal, tailored to local objectives and to the capabilities of local agencies.

4. The State:

Reviews and approves the proposal.

Makes necessary waivers; seeks additional waivers from the State.

Evaluates the block grant as a multiyear experiment.

The idea is this—coordination as pork. Allow Congress, or individual committees, to approve locally designed block grant programs. It might work like this: Congress would consolidate some programs and allow States to run them; States would use these and their own resources to support local planning and development efforts. Congress would also specify other programs that could be consolidated or managed by other agencies at the local level. Congressmen and Senators would then have the role of encouraging these local consolidation efforts and shepherding them through Congress.

Here are some questions to conclude this paper:

Would such an arrangement be too complex?

Where might it be piloted?

If this approach is unrealistic, what is a better way to restructure the current array of Federal economic and rural development programs to work more effectively with the new crop of State initiatives?

Sources: *New Alliances for Rural America: Report of the Task Force on Rural Development*, National Governors' Association, Washington, D.C. 1988, p. 49.

LOCAL GOVERNMENTS AS AGENTS OF RURAL DEVELOPMENT

By Alvin D. Sokolow ¹

In the national scheme of rural development, where do local governments fit? Looking forward to the 1990's, and learning from the experiences of the 1970's and the 1980's so far, we would have to answer the question in a two-edged manner. On the one hand, the thousands of general-purpose local governments which serve small communities nationwide are essential participants in Federal programs that seek to improve the conditions of rural America. On the other hand, they are uneven agents of development—more effective in carrying out certain tasks than others.

It is in handling basic public sector responsibilities—delivering services and providing community facilities—that municipalities, counties, towns, and townships are especially effective. They are less proficient and willing to take the lead, in their communities, to tackle economic problems in the private sector. The distinction here is between two forms of rural development, public service and economic development. Local governments are primarily charged with seeing to the safety, comfort, health, and amenities of their citizens, and they do a good job in providing these public goods. They are far less able to help citizens get jobs or earn higher incomes.

Public service and economic development, of course, are not unrelated functions. Improved services and facilities are frequently a basis for attracting jobs and businesses. Local governments in this way can make lasting, if sometimes indirect, contributions to economic prosperity. The more direct work of initiating and otherwise leading economic development efforts is usually dominated by other sectors of the community.

This paper elaborates on the organizational political realities which underlie the rural development role of small-town governments. It considers also the part these governments can play in Federal policy and programs for rural areas.

CAPACITIES AND LIMITS

There are good reasons for identifying local governments as the principal agents for rural development efforts. Universality is one. Local governments are everywhere; more than 30,000 general purpose agencies extend into all the nooks and crannies of nonmetropolitan America. No other kinds of community-based organizations have a comparable nationwide reach. Either directly or indirectly

¹ Professor, University of California, Davis. Julie Spezia assisted in the preparation of this paper. Portions of the paper are based on current research supported by the Economic Research Service, U.S. Department of Agriculture (Cooperative Agreement 58-3AEN-8-00058).

(through State governments), local governments are the implementing mechanisms of choice when Washington seeks a convenient and available means of applying new domestic policies throughout the land. We see this in a host of environmental and other programs, federally mandated activities that remain in place even after short decreases in fiscal assistance in recent years.

Unique responsibilities and powers are another reason. In their individual communities and areas, local governments control the tools and resources of the public sector. They spend, tax, and regulate. Some public responsibilities and resources can be delegated to, or shared with, other community institutions. But the authority and legitimacy that are the basis of governmental power are not easily reassigned. Among all community leaders, only the key officials in local government occupy their positions as a result of popular and mandatory elections.

We refer primarily to general-purpose governments, and less to school districts, special districts, and other public or quasi-public agencies created for single or narrow purposes. Municipal, county, town, and some township governments have broad responsibilities and powers. The local government landscape in the United States typically is one of overlapping jurisdictions among different types of units. Still the average small community usually has only one or two governments in charge of delivering the great majority of local public goods and regulations—safety and emergency services, health, water supply, waste disposal, public ways, parks and recreation, land use regulation, environmental protection, etc. (K-12 education and medical services are principal exceptions, as responsibilities usually of separate organizations.

Just as important, general purpose governments are also agents of local democracy. As representative institutions, they work to translate community values and priorities into policies and programs. This is the problem-solving and political function of local government, one handled primarily by elected officials. It is an open-ended and ever-changing function. At different times and under varying circumstances, it can involve innovation or retrenchment, seeking new information and ideas or following old routines, looking for solutions inside the community or elsewhere among external sources.

Given such an extensive array of activities and powers, what constrains local governments from supplying the leadership for economic development in small communities and rural areas? We turn to elements of jurisdiction and skill.

1. *Whose Responsibility?*—Put simply, economic development is not perceived as a high priority by most elected and appointed officials in small-town governments. They may agree that growth and prosperity are critical goals for their communities, especially in improving the tax base for public services. But rarely do they seem themselves as providing the leadership in this area. Rather, it belongs in the hands of other community organizations—chambers of commerce or other business associations, in particular. (Indeed, the willingness of other organizations to take the lead in initiating and promoting economic development projects is strong justification for keeping out of this sphere.) Economic development work is not one of the standard and traditional functions of local governments in

rural America. It is an abstraction, in the view of some small-town officials. It doesn't get a top spot on their agendas, preoccupied as they are with the more immediate and conventional job of delivering services and maintaining community facilities. The demands of daily government monopolize the attention of the part-time elected officials and small staffs who run these governments.

2. Leadership Skills.—The argument can be made, however, that just as they lead on public service matters, elected officials are appropriately the movers and shakers in the local economic development arena. The authority and legitimacy inherent in elected office make them natural candidates for this role. And surely the leadership skills useful in one area are applicable to the other.

Actually skill and experience may not be readily transferable from one area to the other, because of the highest risks and less certain rewards of investing a lot of personal time and effort in economic development projects. Small-town elected officials generally are cautious leaders. If they are going to take on new projects, the preference is for familiar and well-defined issues related to existing programs. Economic development work is largely unknown territory. The entrepreneurial talents that it frequently requires are quite different from the safer tasks of building consensus through compromise which are more commonly associated with local political leadership.

Economic development activities also have relatively low public visibility, another feature which inhibits their adoption by local elected officials. As compared to many aspects of public service development, work in this area is not widely understood nor supported by citizens. Seldom are the results of an economic development project as quickly evident as, for example, a street repaving program or the employment of additional police officers.

3. Public and Private.—Concern about crossing the line between what is public and what is private is still another caution among local government leaders in some communities (McGowan and Stevens, 1983). Not everybody enthusiastically accepts the public-private partnership thesis, so widely touted at all levels of American Government in recent years.

CASES OF LEADERSHIP

Certainly not all small-town officials are reluctant to take on a leadership role in economic development efforts. There are notable exceptions to the general pattern, as reported in a number of case studies which I and an associate are reviewing for a current ERS-supported study of political leadership in local projects (National Association of Towns and Townships; Small Towns Institute; Thomas, 1988). Most such published descriptions of apparently successful activities in individual communities, in fact, do not show any direct involvement by officials in initiating or otherwise leading projects. The few that do, however, are revealing in what they suggest about variations in motivation and performance among local officials in rural America. Here are some preliminary generalizations, based on a review in progress of 20 cases including phone interviews with key participants.

1. The officials who aggressively jump into the economic development arena typically are the elected chief executives of their governments—city mayors, village presidents, township supervisors, etc. Members of elected legislative bodies, such as municipal councils or town boards, are far less likely to be involved. Appointed managers or administrators, in the few small-town governments which employ such professionals, sometimes take the lead. Occasionally the chairman of a planning commission or another appointee to a citizen advisory body becomes the driving force in a local project.

2. The mayors and other officials who lead in these efforts are not necessarily more aware of the problems and needs of their local economies than less-involved officials. More so than others, however, they see their public positions as opportunities to do something about these needs. They have a relatively expansive view of the role of local government as including more than the efficient delivery of public services, and they may neglect or leave to others the more routine aspects of governing. In relation to what they want to accomplish before leaving office, they tend to embrace more long-term and comprehensive goals than others. They may come into office with economic development work as a high priority, perhaps because of a business background. Or a generalized interest in this area later becomes more focused on one or more community projects in response to specific problems.

3. Leadership is evidenced by early and persistent involvement in specific economic development activities. Elected officials who initiate or push forward these projects are not exclusively "idea" people nor are they solo actors. The major value of their leadership instead lies in the persuasion and energizing of others. They are brokers, matching tasks with resources in different places. They may be impatient with the existing procedures and limitations of their governments and other community organizations, seeing them as barriers to accomplishing certain economic development goals. Thus, they are less cautious than others in pushing local governments in new directions.

PREVAILING PRACTICES

The more common pattern in small communities and rural areas is for local governments to enter the economic development process as relatively passive and late participants. Called upon to help implement projects after policy directions have been set, the governments supply needed tools and resources. The personal dimensions of early leadership—the intangible excitement and drive generated by one or a few dynamic leaders—are less characteristic of this kind of organizational response.

Nevertheless, implementing actions are no less vital to the success of economic development projects. The long list of resources and actions provided by local governments include:

1. Improved public facilities, including water, sewer, street, and drainage extensions.
2. Land acquisition.
3. Assistance in planning, marketing, and other types of information and research tasks.

4. Public funding for these and other purposes, either provided directly by local governments or accessed through them from State and Federal Governments and other resources.

5. Regulatory actions paving the way for land use and building use changes, whether on the order of a wholesale rezoning of large parts of the community or on the reduced scale of permitting certain code variances for renovating a commercial structure.

6. Other regulatory actions intended to preserve a community's identity, including the adoption and enforcement of historic district ordinances and sign controls.

7. Negotiations with outside agencies, such as State highway departments and environmental protection agencies.

8. Obtaining citizen involvement and support, through public hearings and the appointment of advisory groups.

9. Endorsing and certifying local projects as eligible for various forms of outside assistance.

Even in controlling such valuable resources, the local government in a community is usually only one of several organizational actors in the economic development process. A degree of cooperation occurs among various public and private interests. Often this takes the form of creating an independent or semi-independent organization for coordinating the effort and tackling specific projects (Rubin, 1986). Separate economic development organizations are public agencies in some cases, with funds and powers delegated from mainstream local governments.

Economic development responsibilities are also shared with regional subState agencies. In fact, these multicounty organizations continue as the most active forces for boosting local economies in many parts of rural America. Since their creation, largely in the 1960's and 1970's, the fortunes of the regional development districts, commissions, councils of governments, and planning agencies have fluctuated greatly. Decreases in Federal aid and related program responsibilities in recent years put some agencies out of business and forced others to reduce activities. Although created under State law in most cases as associations of local governments, the regional agencies in many areas were never fully accepted by small-town governments. Tied to Federal and State programs, they were seen as potential threats to local control. Much of this suspicion has diminished in recent years, as the regional agencies have scored some successes. Writers on the subject still regard these organizations as necessary vehicles for rural economic development, because of their ability to provide technical assistance and expertise to individual small communities (Bender et al., 1987).

FEDERAL POLICY AND PROGRAMS

However we assess the Reagan New Federalism of the early 1980's on programmatic or ideological grounds, it did bring about a valuable reexamination of roles and responsibilities among the different levels of American Government. Liberals and conservatives believed that the panoply of National Government programs directed to community and regional problems, which had accumulated in the two decades prior to the 1980 election, lacked coherence and ef-

fectiveness. Conservatives were critical of excessive spending and national intervention in local affairs, while liberals were more concerned about issues of equity and distribution.

The critique applies to rural development as much as to other areas of Federal domestic policy. Hindsight tells us that Washington attempted too much in creating the many Federal aid programs of the 1960's and 1970's. Beyond a general assumption that the relative deprivation of rural areas demanded Federal action, there was no coherent set of goals and strategies tying together these programs (Long, 1987; Reid and Long, 1987). Showing the interests and successes of separate congressional-executive-regional coalitions at different times, the objectives of specific rural development programs were numerous and diverse—job creation, improving community facilities of one kind or another, general local government support, assisting local planning, manpower training, environmental protection, regional assistance, etc. Some programs focused exclusively or primarily on rural (or metropolitan) areas, others were more universal in application.

While confronting the question head on, the New Federalism of the early 1980's did not completely resolve the issue of the proper scope and limits of national intervention in State- and community-level problems. (The issue comes up in every political generation—an enduring quality of federalism in this nation.) The Reagan administration tried hard but only partially succeeded in its first term in extricating the National Government from a host of domestic activities (Nathan and Doolittle, 1987). Despite substantial reductions in Federal aid and the transfer of some programs to State and local governments, a national presence continues in the rural development arena. In large part this is due to the insistence of Congress in keeping alive such programs as the EDA grants for local economic development projects and Farmers Home Administration loans and grants for small community facilities, although at much reduced levels from past years.

It is unlikely that we will see in the near future a return to the generous and undisciplined Federal aid patterns of the previous two decades. However, some Federal efforts in the rural development area undoubtedly will be in place through the 1990's and probably beyond. Awaiting the new national administration next year will be a range of decisions about program goals and scope. What advice can we offer that administration about those goals and details, particularly as they take account of the potential and limitations of local governments?

By reading between the lines, a reader can capture the softly stated argument of one school of thought that the National Government should not be in the business of directly providing finance assistance to individual communities for economic development projects (Deavers, 1987; Deavers and Brown, 1984; Long, 1987; Pulver, 1988; and Wilkinson, 1986). Such assistance is counterproductive, because it puts Federal resources at the service of a few communities competing with many others for a limited supply of businesses and jobs. Inevitably some localities are helped at the expense of others, increasing—not reducing—the economic disparities among communities and regions. Furthermore, the effectiveness of Federal economic development efforts can be questioned for even

communities which have enjoyed such aid. We lack a comprehensive evaluation of the impacts on rural America overall of Federal programs in this area, but scanty pieces of evidence suggest that relatively few jobs have been created in relation to Federal dollars supplied (Honadle, 1987) and that more shortrun private profits than lasting public gains have been produced (Wilkinson, 1986). State governments are a better provider of economic development assistance to rural communities, according to this reasoning, because they have a more legitimate interest in helping their communities to compete and they are more able to control the terms and local uses of aid. In fact, the States in their innovative and aggressive mode of recent years have expanded greatly their economic development programs for small communities and rural regions (Meeks and Lawrence, 1988; and Redwood, 1988).

Federal policy and resources are better devoted to dealing directly with the basic income and quality of life inequities in rural America, the same argument suggests. The population and economic growth experienced by nonmetropolitan areas in the 1970's was apparently a short-lived pattern which failed to narrow substantially the urban-rural gap in economic and living conditions (Brown and Deavers, 1987). Yet because of the increased interdependencies of the metropolitan and nonmetropolitan parts of the Nation, some writers see little justification for a separate rural "policy" (Deavers and Brown, 1984). Assistance for income maintenance and community facilities is more effectively targeted on poverty and inadequate living conditions wherever they exist. This is a strategy which recognizes also that the inequities may be more profound between communities and areas within rural America than between rural and urban sectors of the country.

To the extent that it is directed at improving community facilities and services, this kind of Federal strategy links up well with the capacities of small-town governments. Indeed, their experiences with the Federal programs of the past two decades make them better equipped now than 20 or 25 years ago to serve as agents of a new or expanded national community development effort. Most small-town governments are relative newcomers to the mainstream of American federalism, first brought into the intergovernmental system by the many aid and mandate programs focused on localities which were created in the late 1960's and early 1970's. Participation in these programs, voluntary or forced, has certainly complicated the job of governing small communities and rural areas—adding numerous requirements, increasing costs, and cutting into local autonomy and discretion. Yet there also have been long-term beneficial effects, in improving community facilities, creating new public services, and reducing the traditional political isolation of rural areas. Many small-town governments have learned a great deal from these experiences with Federal programs, becoming in the process more proficient and sophisticated organizations (Sokolow, 1987; Hanford and Sokolow, 1987).

A critical question concerns the allocational features of programs that distribute funds to local governments for development purposes. As in any Federal aid program, the ideal is a balance between accountability to national objectives and enhancement of community self-control. In the pursuit of effective rural develop-

ment, that balance requires a matchup between a focus on using Federal funds to correct for inequities nationwide and protecting the discretion and strength of local governments as democratic institutions.

We need not go back to the drawing board to design anew the specific programs that could accomplish such a matchup. Useful models exist among the many Federal assistance efforts of the past 25 years. Two stand out in this regard:

The Farmers Home Administration program of loans and grants for water, sewer, and other rural community facilities; and

A revised version of the now defunct General Revenue Sharing program, which distributed funds on an entitlement basis to virtually all general purpose local governments nationwide.

The appeal of the FmHA program is that it focuses on the basic public works conditions of the most needy of small communities, at relatively low cost to the Federal treasury because of the primary use of low-interest loans to fund local projects. Through 1979, FmHA assisted approximately 15,000 rural localities in constructing new or improved water and wastewater facilities (Rasmussen, 1985).

Local government officials and community leaders were extremely fond of GRS, before its termination in 1986, because of its non-restrictive features. More so than any other Federal aid program, it gave full reign to local priorities. But its contributions to the equity principle were limited by an allocation formula that extended funds to rich and poor recipients alike. Formula provisions of course can be revised and that is the intention of the proposed Targeted Fiscal Assistance Act, under consideration in Congress for the past 2 years. A less expensive version of GRS, TFA places much more emphasis on measures of community wealth, tax effort, and fiscal capacity.

SUMMARY

Even assuming an expansion of assistance programs beyond the present level, the Federal role in rural development remains a limited one. Rural development is primarily a responsibility of the States, regions, and communities directly affected, with Federal assistance playing a secondary but important part of helping to correct inequities in community conditions.

Small-town governments obviously are key players in this scenario. In the range of activities undertaken and in providing for democratic processes, municipalities, counties, towns, and townships are the most comprehensive of all community institutions in rural America. Serious efforts to improve local economies and quality of life require their active participation. Especially in the economic development arena, however, local governments cannot accomplish these objectives acting alone. For reasons having to do with organizational responsibilities, differences between political and entrepreneurial skills, and geographical scale, the initiation of economic development projects often rests more comfortably in the hands of other institutions and leaders.

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V. PANEL ON HOW CAN FEDERAL POLICY BE MADE MORE EFFECTIVE?

This final panel was asked to consider how Federal rural policy can be made more effective. How should the Federal Government organize itself to plan and administer rural development, and how can coordination of programs among the different levels of government be strengthened? Is a government-wide national rural strategy feasible? What has been the experience of other national governments and of State governments with rural development policies and strategies? The first panelist, Jim MacMillan, is professor and head of the Department of Agricultural Economics at the University of Manitoba; he described Canadian experience with a 10-year development plan for Manitoba. Ron Brach, executive director of the New York State Legislative Commission on Rural Resources, reviewed that State's experience with trying to develop an institutional focal point for policies affecting rural areas and residents. Finally, Bill Nagle, a senior associate with the World Resources Institute, recounted his experience with working on a national rural development strategy in the Carter administration.

Richard Long, associate director of the Agriculture and Rural Economics Division in the U.S. Department of Agriculture's Economic Research Service, was the first discussant for the Panel V. Long commented that the fundamental disadvantage of rural areas was a recurring theme of the panelists. He cited statements from Ron Brach and Jim MacMillan as illustrative of the theme. Brach said, "Without special external assistance given in proper measure, it is questionable whether essential rural services and institutions will survive within the current metropolitan-dominated and global political economy." MacMillan wrote that "... the improvement of income, employment opportunities, and standard of living in disadvantaged regions is a proper goal of government because of national dissatisfaction with the existence of pockets of poverty and persistent low economic growth in some regions and communities." Long interprets this to mean that there is a fundamental economic problem that the market will not solve; it is not a market failure, but rather failure of the market to give us the desired results. Consequently, small changes designed to correct market failure will not work. Instead, Long says that "... what we are faced with is actually spending resources to get the outcome that we want."

Long suggests that in rural development strategy, transfer programs probably are the best proxy for freeing people from having to respond to the stimulus of the market that attracts them out of the rural areas. The obstacle to such an approach lies primarily in our political institutions: "In a system where many elected officials base their appeal on assuring their constituents that their principal purpose in life is to make sure that their jurisdiction gets at least their fair share of the resources that are spent . . . we are not

going to get much redistribution to address those kinds of problems."

The final discussant was Fred Schmidt, director of the Center for Rural Studies and associate professor of agriculture and resource economics at the University of Vermont. Schmidt says that the panelists identified the following as characteristics of a good Federal rural policy: it should be fair, egalitarian, consistent, accountable, based on needs that are identified through sound research, stable, and, probably, decentralized. It also should be sensitive to regional, ethnic, occupational, and locational differences. It should be, in the final analysis, political. He commented that he thinks rural development research has reached a new maturity because workshop participants evinced a willingness to live with the ambiguity of not having a policy context.

He identified as a common theme of the panelists a search for some organizational entity to provide visibility for rural issues through a central administrator, a legislative unit, an administrative body, a commission, a Cabinet-level position, or some other device. He commends the New York practice of including rural representatives on policymaking boards.

Schmidt believes that a research base that will permit need to be fairly assessed is essential. Since local areas will differ from one another, Schmidt called for strategies for analyzing local needs and "orchestrating" relations between various governmental levels.

During the general discussion, several participants made the point that coordination of governmentwide rural development activity is not possible without involvement from the Governor at the State level and the office of the President at the national level. Ron Brach commented that "As far as Cabinet-level secretaries or commissions in the States working together, it's true that no one of those Cabinet members—they are all equal peers—can coordinate all the others. It just won't work institutionally." Jim Bonnen remarked that coordination does not result from formal structures, but through politics. Bonnen feels that the necessary preliminaries for action (persuading people that there is a problem, getting them to see their interest in the issue, getting into advocacy, and examining the alternatives for action) will never happen at the national level, rather it will have to be driven from the local or State level. Bonnen sees the Governors as critical elements in this process.

CANADIAN RURAL REGIONAL DEVELOPMENT

J.A. MacMillan and E.A. Poyser ^{1a}

INTRODUCTION

The purpose of this paper is to provide observations based on the Canadian experience in centralizing responsibilities for rural development policies and programs in a single department versus dispersion of responsibilities across sectoral departments. A critical related issue concerns the centralization of government responsibilities for rural/regional development within a "place" or regional spatial context. Canada has conducted some unique experiments in developing and coordinating regional development policies.

A Federal fiscal equalization program which was introduced in 1957 transfers Federal revenues from Provinces with above average fiscal capacity to Provinces with below average fiscal capacity. The equalization policy was based on pessimism concerning the capacity of governments to work together in joint activities. Policy reviews in the early 1960's concluded that the Federal/Provincial agricultural resource development programs required expansion to include other sectors and that rural development policies and programs should be focussed on selected geographic pockets of rural poverty in Canada. A strong Federal emphasis was placed on co-ordination and integration of regional development policies and programs under a single Federal department in the late 1960's. The policy of the current Federal Government relies primarily on market forces and adjustment policies combined with large transfers to low-income Provinces under the fiscal equalization program. Transfers under fiscal equalization were more than twice the level of broadly defined regional development programs in 1984.

Canadian rural/regional development programs can be grouped into three major approaches. First, traditional macroeconomic fiscal, trade and monetary policies imply that government expenditures and policies applied to sectors in low-income regions or agricultural commodity producers will solve the problem. The focus is on growth in National and Provincial gross national product. Second, microeconomic market imperfections underlie policies designed to facilitate adjustments in regional labor and capital mobility. Third a "public good" view provides an emphasis on rural/regional income distribution and people development which implies targeting clientele of programs by income class and implementing specific programs to move individuals up from the lower income classes. Consistent with this view a "place" or regional spatial

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focus is required for rural and urban areas because Canadian regional economic growth rates are not converging.

The reasons for the apparent reluctance of Canadian governments to integrate or analyze the impacts of programs on low-income people is difficult to determine. One possible explanation is that advisors (economists) are more comfortable analyzing efficiency conditions, growth, and productivity effects on a commodity and sector basis. The result is predominance of rural development programs focusing on prices, cattle numbers, and bushels of grain in contrast to measures of human resource development. Some efficiency-oriented economists have argued strenuously against regional rural development programs on the grounds that disadvantaged regions such as Manitoba's Interlake should be written off because public money would have greater economic growth benefits if spent in major metropolitan centers such as Winnipeg.^{1b}

In fact special efforts are required in major metropolitan areas such as Winnipeg to attack urban pockets of poverty. Many urban problems can be traced to the displacement of people from Canadian rural and resource regions. Manitoba's Winnipeg Core Area Initiative (CAI) is an urban descendant of the joint Federal/Provincial rural area development plans. The initial CAI had a 5-year mandate which was renewed for an additional 5 years. The need for a place focus and a 10-year timeframe have been confirmed by both Manitoba's rural and urban area development plans. Problems resulting from the dislocation of people from rural and resource regions in Manitoba was recognized in a "stay option" policy which had the goal of increasing opportunities for people to remain in rural and resource regions. Decentralization of provincial government services from Winnipeg to rural regional centers was implemented under this "stay option" policy.

Topics to be discussed below include: (1) Canadian experience; (2) commodity price cycles and dynamic regional adjustment; (3) rural/regional economic development concepts; (4) role of government and private sectors; (5) political/bureaucratic management context; and (6) successful rural/regional development programming.

CANADIAN EXPERIENCE

Canadian rural development programs were initiated in the 1930's with the Prairie Farm Rehabilitation Act (PFRA) which was followed with the Agriculture and Rural Development Act (ARDA, 1961). These programs focused primarily on improved land use planning in order to increase agricultural resource productivity and thereby, indirectly, farm income. The Fund for Rural Economic Development (FRED, 1966) was an attempt to add two new approaches: (1) Areawide planning; (2) comprehensive joint local, Provincial and Federal programming including human resource development (manpower, educational services, counseling, farm financial management training, etc.), and infrastructure (roads, schools, veterinary clinics, parks, industrial parks, etc.).

^{1b} Buckely, et al. "Comments by Dominion Bureau of Statistics Staff," *Seminar on the Evaluation of the Manitoba Interlake Area Development Plan*, Department of Agricultural Economics, University of Manitoba, Occasional Series No. 1, 1969, p. 72.

The rationale for these two additional strategies was that a focus on land use and resource productivity improvements for Canadian agriculture severely restricted the scope of the attack on the problems of geographical pockets of low-rural income in Canada. It was felt that a geographical concentration of public effort was required and that improvements in physical resources, land, water, etc., were ineffective without people development and the provision of public service amenities. Manitoba's Interlake Region was identified as one of the severely depressed rural areas in Canada and a FRED Agreement developed.

FRED plans had a unique Federal/Provincial/local management structure. A Joint FRED Board made up of Federal and Provincial deputy ministers met annually to review progress and periodically, after year 3 and year 5 for more formal evaluations. Detailed program and project targets were defined for the 1967-87 period expenditure of \$85 million.

In 1968, the Department of Regional Economic Expansion (DREE) was set up to coordinate Federal efforts in regional development to focus on infrastructure (roads, water and sewer systems, and schools) focusing on growth centers in special areas programs and industrial incentives (cash grants to processing and manufacturing firms) in designated areas. A policy review in the early 1970's rejected the growth center and industrial incentive focus of DREE and initiated broad 10-year General Development Agreements (GDA) with all Provinces. GDA's focused on sectoral development strategies with joint Federal/Provincial programming. Unhappy with Provincial delivery, the Federal Government established 10-year Economic and Regional Development Agreements (ERDA's) in 1981 to promote direct delivery of projects by the Federal Government as well as joint Federal/Provincial implementation on initiatives.²

Canadian rural development program expenditures amounted to \$1.1 billion in the 1969-76 period.³ During the 1961-71 period, Canadian nonfarm labor income per employee rose at a much faster rate than net farm income per farm operator. In contrast, after 1971 farm income rose at a much faster rate than urban income. Net farm income per farm operator divided by nonfarm labor income per worker increased substantially from .53 in 1971 to 1.10 in 1976. (See table 1.)

TABLE 1.—INDICATORS OF CANADIAN RURAL DEVELOPMENT

	Population (thousands)	Average family income (dollars)
A. POPULATION AND INCOME BY URBANIZATION, 1971 ¹		
Rural:		
Farm	1,419.8	6,610
Nonfarm	3,737.7	7,428
Canada	21,568.0	9,600

² Savorie, D.J. "Regional Economic Development: Canada's Search for Solution (Toronto: University of Toronto Press, 1986), p. 81.

³ MacMillan, J.A. and G.R. Winter. "Income Improvement Versus Efficiency in Canadian Rural Development Programmes," *Proceedings, Seventeenth International Conference of Agricultural Economics*, 1979, pp. 381-88.

TABLE 1.—INDICATORS OF CANADIAN RURAL DEVELOPMENT—Continued

	Population (thousands)	Average family income (dollars)
B. RANGE OF PROVINCIAL FAMILY INCOME, 1971 *		
Highest:		
Rural farm—British Columbia		(8,767)
Rural Nonfarm—British Columbia		(8,940)
Lowest:		
Rural farm—Saskatchewan		(5,037)
Rural Nonfarm—Newfoundland		4,952
C. FARM VERSUS NONFARM INCOME COMPARISONS *		
Net farm income per census farm operator/Nonfarm labour income per nonfarm worker:		
1971		.53
1976		1.10
Net farm income per census farm operator:		
1970		9,863
1975		14,730
Nonfarm labour income per nonfarm worker:		
1971		7,232
1976		13,541
D. LOW-FAMILY INCOME DISTRIBUTION BY URBANIZATION *		
	1971	1973
Percent of low-income families by urbanization:		
Rural areas	27.2	17.3
Farm-resident	35.2	21.8
Farm-nonresident	16.8	12.8
Canada	18.3	13.4
Highest Provincial percentage of low-income families: Newfoundland	34.3	^a 23.7
Lowest Provincial percentage of low-income families: Ontario	13.5	^a 8.9

¹ Ronald d'Costa, "Socio-demographic Characteristics of the Population by Community Size," A Comparative Study (Ottawa: Canadian Council on Rural Development, 1977), Table A-2.

² D'Costa, "Characteristics of the Population," Table BIII.

³ Net farm income per farm operator calculated by net farm income (Statistics Canada, "Net Farm Income," Catalogue 21-202) divided by the number of census farms. Non-farm labour income per employee calculated by labour income (Statistics Canada, Estimates of Labour Income, Catalogue 72-005 (Ottawa: Ministry of Supply and Services) divided by the number of employees (Statistics Canada, "Estimates of employees by Province and Industry," catalogue 72-513 (Ottawa: Ministry of Supply and Services).

⁴ Statistics Canada, Office of the Senior Advisor on Integration, "Perspective Canada II" (Ottawa: Ministry of Supply and Services, 1977), 164.

^a Newfoundland.

^b British Columbia.

The largest decrease in the proportion of low-income families across urbanization occurred for farm families resident on farm 1971-73.

In the mid-1970's, increasing agriculture prosperity measured by farm income relative to nonfarm income led to a focus on income transfer programs to commodity groups on a continuing basis to dairy farmers and more recently to grain producers. Currently, billions of dollars are being spent on Federal and Provincial agricultural subsidy and stabilization programs with relatively low public sector expenditures on rural development programs. While rural development programs are generally designed and implemented with reference to explicit income distribution and economic efficiency criteria, income transfer programs have a tendency to be short term and ad hoc in nature. They usually imply reduced benefits to someone else in the economy, with no necessary long-term economic or social payoff. Many of the income transfer programs in Canada (grain transportation subsidies and supply management

marketing boards) are criticized by economists as producing major resource allocation distortions.

Canadian regional economic development programs have largely been displaced by increasing expenditures on social programs including unemployment insurance, employment programs, child allowances, and agricultural commodity subsidies. Expenditures on employment and wealth creating activities are only a small fraction of total Federal transfer payments. The Federal-Provincial Task Force on Regional Development Assessment (p. 44) recommended the design of the transfer system in ways that encourage productive employment supported by income security measures. Dairy farmers, grain producers, fishermen and the unemployed are trapped by social programs into behavior oriented to maximizing government payments instead of seeking profitable investment opportunities. Social programs have major deficiencies. For example, Unemployment insurance (UI) is described by the MacDonald Commission as an attempt to provide social insurance and income redistribution but is a failure in both areas.⁴ According to the Commission, UI has deficiencies with respect to income redistribution because payments are to individuals not families, people who have not paid premiums are excluded, and tests are not made for all sources of income. Similar deficiencies exist with respect to agricultural commodity subsidy and stabilization programs.

According to the MacDonald Commission, Canada's regional economic development programs which are intended to reduce regional income disparities have failed. A shift in industrialized policy to an aggressive strategy of trade liberalization and market orientation is proposed to substitute for protectionism, tax incentives, industrial subsidies, public ownership, and restrictions on foreign ownership. Industrial/sectoral policy is broadly defined by the Commission to include all government efforts to promote growth, productivity, and competitiveness of Canadian industry.

COMMODITY PRICE CYCLES AND DYNAMIC REGIONAL ADJUSTMENT

Contrary to the beliefs of some Canadian economists, significant labor mobility exists between regions associated with commodity price cycles. Courchene hypothesizes that the Canadian income transfer system perpetuates regional disparities.⁵ Canadian transfers to individuals are large and likely provide a disincentive to adjustment. The critical task is the design of income security programs which minimize such disincentives. Peak to trough commodity price movements have been the underlying cause for large numbers of workers and associated population moving between Canadian regions.

Large numbers of people: moved from Saskatchewan to other Canadian Provinces in the late 1960's due to low grain prices, moved to Alberta in early 1970's and moved to other Provinces from Alberta in the early 1980's as the price of oil and gas fell, and moved to Ontario from other Provinces in the mid-1980's with the econom-

⁴ Carmichael, E.A., W. Dobson and R.G. Lipsey. "The MacDonald Report: Signpost or Shopping Basket," *Canadian Public Policy* XII, Supplement 1986, pp. 28-30.

⁵ Courchene. "The Transfer System and Regional Disparities," in *The Canadian Economy: A Regional Perspective*, D.J. Savoie, ed., Methuen, 1986, pp. 25-62.

ic boom in the automobile sector. The geographical distribution of population in Canada is summarized in Figure 1. Prairie region population mobility and development impacts have been analyzed using the functional economic area concept developed by Karl Fox for Iowa trading patterns (Figure 2). The current major price cycle moves in copper, nickel, and pulp and paper commodities mean that regions and communities in Canada with a supply comparative advantage are undergoing significant population and employment expansions. As various commodities undergo peak to trough and trough to peak price cycle movements due to international market demand fluctuations and exchange rate fluctuations, positive reactions are set off in Canadian regions supplying the commodities with rising prices and negative reactions are set off in regions supplying commodities with falling prices.

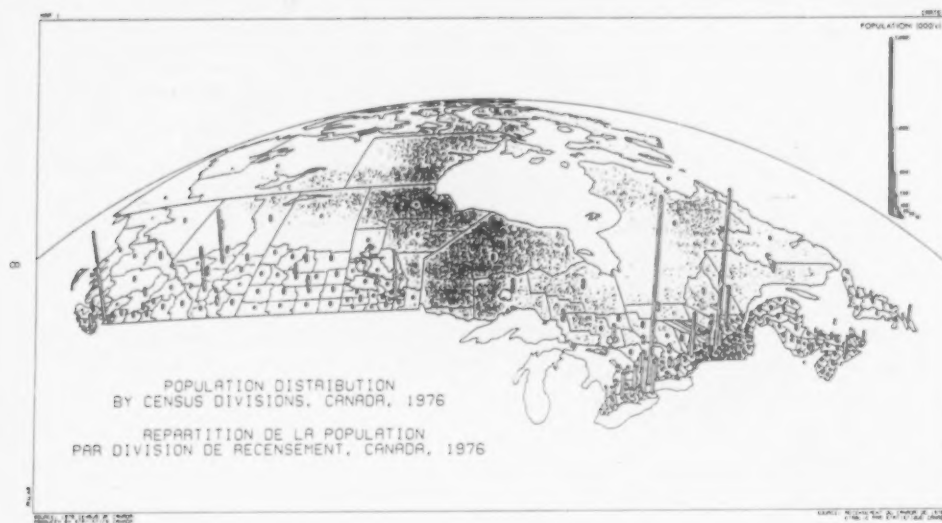


Figure 1
Population Distribution by Census Divisions, Canada, 1976

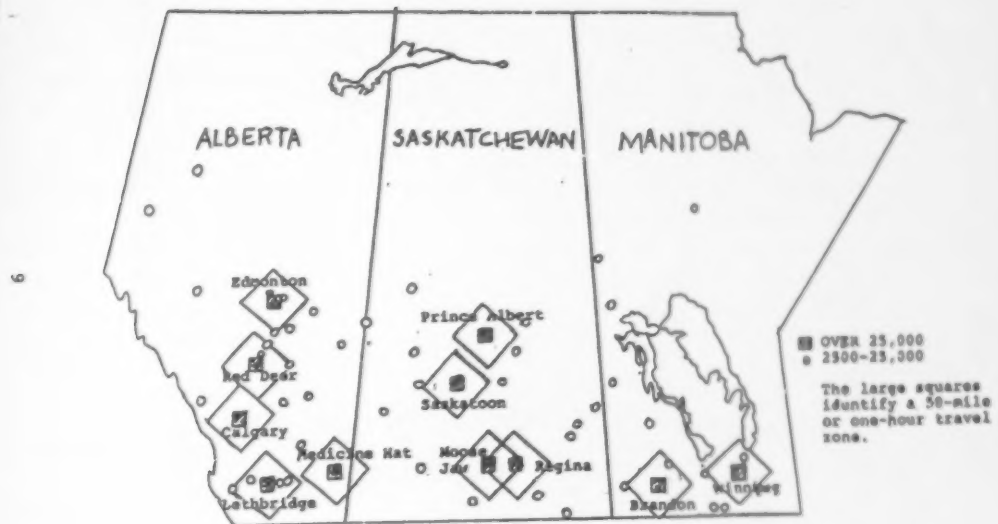


Figure 2

Trade Centres in the Prairie Regional System

W.R. Maki and J.A. MacMillan, Regional Systems for Development Planning in Manitoba, Department of Agricultural Economics, University of Manitoba, Research Bulletin No. 70-1, 1970, p. 14.

Given the long leadtime required to establish effective rural/development projects and the long implementation time required to accomplish development results, insufficient attention has been paid to the dramatic changes in regional growth associated with commodity price cycles and dynamic regional adjustments. During the 1980's many resource communities could be described as pockets of poverty measured by extremely high unemployment rates. Canada's growth over the last few years has primarily originated in central Canada. Dramatic changes have occurred in 1987⁶ with diffusion of growth across the country. The Atlantic Provinces and British Columbia actually performed better than Ontario and Quebec. A surge in metal prices and strong demand for fish products gave a boost to the Atlantic Provinces. Alberta showed signs of recovery due to higher 1987 oil prices and a very buoyant export market for natural gas while the grain based economies of Saskatchewan and Manitoba showed some stability. British Columbia's strength can be attributed to the strong gains in the big pulp and paper industry associated with increased competitiveness associated with the low Canadian dollar combined with few capacity additions in recent years. Looking ahead slower growth is expected in central Canada as manufacturing sector responds to a slowing of consumer and investment demand for durables. Pulp and paper is expected to have good momentum and metal markets are expected to deteriorate but mining industry revenues are expected to continue increasing.

⁶ Bank of Montreal, Business Review, March 1988, p. 3.

Economists are notorious for unreasonable claims of expertise in forecasting business cycle and commodity price cycle turning points. A more reasonable rural/regional development approach would involve the identification of commodity price cycle peaks and troughs on a regional historical basis and expansion or recession paths as is done by the U.S. National Bureau of Economic Research.⁷ Evidence now indicates that a 1987 trough may have occurred in international grain prices and commodity price cycle peaks may have occurred for nickel, copper, and aluminum in 1988. A critical need exists for regional business cycle and commodity price cycle analysis, as well as structural trend analysis to provide an economic context for rural/regional development policies in Canada.

RURAL/REGIONAL ECONOMIC DEVELOPMENT CONCEPTS

Considerable scope exists for additional Canadian study and analysis of the policy and programs implications of alternative rural/regional economic development concepts.

1. NATIONAL MARKET ORIENTED RURAL DEVELOPMENT

First, traditional macroeconomic fiscal, monetary, and trade policies have important economic impacts on Canadian regions. Federal procurement expenditures and taxes are the subject of continual Federal/Provincial debate, in particular with respect to defense and other contracts and industrial incentives. Monetary policy which is increasing interest rates oriented to Canadian national inflationary concerns associated with the booming economies of central Canada are detrimental to the slow growth regions. The movement to freer trade for some commodities and sectors will have specific regional impacts which have been recognized and policy commitments for adjustment have been made.

Second, according to neoclassical economic concepts labor and capital will move between regions consistent with market demand and supply fluctuations and market imperfections and frictions can "explain" the persistence of regional disparities.⁸ Appropriate rural/regional development programs for governments following neoclassical economic concepts are directed to facilitating adjustment: (1) labor force mobility information and incentives, retraining and mobility incentives, and industrial relocation assistance; (2) commodity stabilization and special commodity subsidy transfer payments; (3) commodity storage; (4) regional, sectoral, and community stabilization programs. It is interesting to note that FRED manpower services had a large impact on mobility of Interlake area residents. Vocational and apprenticeship training had the greatest impact followed by adult education and manpower corps.⁹

The economic rationale for adjustment programs is based on the belief that the perfect information and mobility of labor and firms

⁷ Mintz, Ilse. "Dating United States Growth Cycles," *National Bureau of Economic Research, Occasional Papers*, 1974, pp. 1-113.

⁸ Bradfield, M. *Regional Economics: Analysis and Policies in Canada*, (Toronto: McGraw-Hill Ryerson, 1988), p. 118.

⁹ Tulloch, J.R. and J.A. MacMillan. "A Micro-Analytic Model of Migration Behaviour," *Regional Science Perspectives*, Vol. 3, 1973, p. 115.

assumed by the neoclassical model do not hold an economic efficiency will be promoted by public expenditures. From an economic perspective rural development programs designed to assist adjustment are directed to alleviating "market failures" existing due to the frictions associated with movement of labor between regions and regional entry and exit of firms, as well as the regional startup and shutdown costs associated with reacting to commodity price cycles and national trade policies.

2. REGIONAL SPATIAL PUBLIC GOOD ORIENTED RURAL DEVELOPMENT

National defense is the accepted example of a pure public good which is allocated government expenditures on the basis of purely political decision criteria. Due to a "market failure" the market does not provide any guidance to the appropriate level of public defense expenditures in response to the public need for protection. The concepts of public choice need to be substituted for market signals. Public choice is defined as the economic study of nonmarket decisionmaking, or, simply the application of economics to political science.¹⁰ Rural/regional development goals can be viewed as a public good. From this perspective the improvement of income, employment opportunities, and standard of living in disadvantaged regions is a proper goal of government because of national dissatisfaction with the existence of pockets of poverty and persistent low-economic growth in some regions and communities.

Similar to defense, the appropriate level of government expenditures on rural/regional development is best determined through public choice concepts. The economic concept of "effectiveness" is used to refer to the case where specified levels of defense or alternative public goods are set by political processes and budget alternatives examined. Alternatively a fixed-dollar expenditure can be defined and alternatives examined to determine the largest possible amount of the public good determined by "performance indicators."

The "public good" rationale for rural development policies can also be viewed as a public attempt to redistribute income from high-income to low-income regions; this concept is imbedded in the Canadian program of interprovincial transfers out of the general Federal revenue to "low" income Provinces. In a very broad context the acceptance of rural development policies on the basis of the public good rationale can be viewed as public dissatisfaction with the "natural" regional spatial distribution of income. Such regional income distribution programs are excluded from the market oriented rural development programs because of the strict assumption of the neoclassical model that the current distribution is acceptable. Musgrave¹¹ makes a distinction between "merit wants" which require the imposition in a democratic society of income redistribution, regulating the sale of drugs, preventing false advertising, etc., and social wants such as defense which is consumed by all consistent with social preferences.

¹⁰ Mueller, Dennis C. "Public Choice: A Survey," *Journal of Economic Literature*, June 1976, pp. 395-433.

¹¹ Musgrave, R.A. *The Theory of Public Finance* (New York: McGraw-Hill, 1959), p. 13.

The "natural" pattern of regional spatial economic development and income distribution in Canada is consistent with the concept of "urban economies of scale".¹² The large Ontario and Quebec markets distributed around Toronto, Ottawa, Montreal, and Quebec City provide sufficient population and wealth to sustain a substantial manufacturing and service complex which is competitive on an international scale emphasizing automobile manufacturing and steel production. From a Canadian economy perspective the Ontario/Quebec industrial complex is relatively self-sufficient and provides the manufacturing base for a major proportion of manufacturing and national service inputs to the Atlantic and western Canadian Provincial economies.

From an economy perspective the Atlantic and western Canadian Provinces have very low economic self-sufficiency ratios which means that large impacts result in the Ontario/Quebec industrial complex associated with major expenditures, eg., Federal procurement and energy megaprojects in the Atlantic and western Canadian Provinces. In the jargon of regional development there exist large "spillover benefits" and "international feedbacks" to Ontario/Quebec from economic activity in Atlantic and western Canada which provides an economic rationale for national political support for regional development projects.¹³ Unfortunately politicians and policy analysts in Ontario did not recognize such impacts when Ontario blocked favorable energy policies for Alberta energy megaprojects in the early 1980's.¹⁴ Within the Atlantic and western regions the economies of the large metropolitan centers such as Vancouver, Calgary, Edmonton, Regina, and Winnipeg in the west and Halifax in the Atlantic region provide a focus for "urban economies of scale" and can in fact prosper regardless of the declining income levels and development in rural regions.

Sociologists refer to "push" and "pull" population migration factors. Urban economies of scale associated with large metropolitan urban industrial complexes can be viewed as population pulling factors. The phenomenal pace of applied agricultural technology advances in crop breeding, agronomy, soil science, and farm financial management have been predominantly labor saving and capital using. Agricultural production technology advances can be viewed as the major factor "pushing" rural population to metropolitan urban industrial complexes. From a "public good" perspective agricultural subsidies can be viewed as compensation to farmers and farm communities associated with bearing the costs associated with the adoption of agricultural technology innovations. Urban communities and consumers are major beneficiaries of increasing agricultural productivity but do not directly pay for the benefits. Due to a "market failure" resulting from technological externalities associated with increasing agricultural productivity urban consumers receive benefits in terms of "low cost" food without a direct payment.

¹² Isard, W. *Introduction to Regional Science*, (Englewood Cliffs: Prentice-Hall, 1975, p. 67.

¹³ Miller, R.E. and P.D. Blair, *Input-Output Analysis*, Prentice Hall, 1985, p. 58 for definitions.

¹⁴ Douglas, G.W. and J.A. MacMillan. "Significance of Interregional Feedbacks for Canadian and Regional Energy Policy Decisions," *Canadian Journal of Regional Science*, Fall 1983.

Rural education expenditures in most Canadian regions are the largest local government expenditure. In a public good context farmers and rural communities are spending sums on education but urban communities benefit substantially from these expenditures. With the continuing trend of rural/urban migration urban industrial complexes absorb rural youth and adult migrants educated in rural communities at the expense of farm taxpayers. It is interesting to note in this context that the Manitoba Government has recently committed to reduce the cost of education to farm taxpayers by means of education tax rebates and thereby alleviate the "market failure" distortion associated with financing rural education.

Appropriate programs consistent with the "public good" context for rural development can be viewed as the direction of all public expenditures within a low-income region for the achievement of improved incomes and standards of living and a search for programs and projects which will have a high rural/regional development impact measured by performance indicators relative to cost. In a Canadian context the Constitutional mechanism of redistribution of Federal revenues to low-income Provinces is the preferred means of achieving Canadian regional/rural development objectives. According to the Federal-Provincial Task Force on Regional Development Assessment (p. 52 and p. 57), government transfer payments in 1984 to individuals (including equalization, unemployment insurance, Canadian pension plan, education, health, and general government services) were \$1,800 per capita compared to \$700 per capita in broadly defined regional development expenditures (including regional industrial incentives, regional agriculture development, fisheries, transportation, research, training, and business tax expenditures). The issue can be viewed as one of directed versus unconditional grants. Directed Federal grants include social assistance, procurement distribution, subsidies for stabilization and special commodity subsidies, and energy megaprojects in western Canada and the maritimes. Public intervention directed to rural development policy goals can be rationalized on the basis of rural regional "market failures."

ROLE OF GOVERNMENT AND THE PRIVATE SECTOR

The major regional development tool of governments which directly influences the private sector is the spatial allocation of procurement for health, education, highways, defense, government corporations including railways, airlines, etc. The regional development impact of Federal procurement is often overlooked. In many rural centers government services are the major source of employment. In the case of the Interlake FRED plan the closure of the Government airbase in the area was estimated to remove annual jobs and income equivalent to the annual impact of the \$85 million plan.¹⁵ The documentation of this negative impact would not have been possible without the regional economic model supplemented with detailed analysis of the military payroll and annual operating

¹⁵ MacMillan, J.A., C.M. Lu and C.F. Framingham. *Manitoba Interlake Area* (Ames: Iowa State University Press, 1975), p. 90.

budget. Federal compensation was made in the form of an industrial park.

Controversy exists with respect to measuring the potential success of government regional industrialization incentives in Canada and in other countries. According to Savoie (p. 157), industrial incentives are widely used in many countries including Canada, the United States, 13 European countries, Japan, and Australia. These programs continue despite difficulties in measuring their relative contribution and benefits relative to costs. Recently the MacDonald Commission has argued for more market oriented industrial policies based on the principles underlying increasing international trade.

In this context of controversy appropriate criteria for public/private interaction are discussed for Canadian energy projects. Private sector proposals for alternative energy electricity generation from windmills, drainage ditch water flows, and wood-fired electricity in Alberta have not been strongly supported by Alberta electric utilities which have proposed coal-fired electricity as the best alternative for adding capacity if needed in 1994. Alberta's current electrical utility policy appears to produce negative rural/regional development incentives relative to the Provincial and Federal Governments' economic diversification goals. One agro-energy project involving wood-fired electricity and associated livestock production in applying to the Alberta Energy Resources Conservation Board (ERCB) estimated a supply price equivalent to the supply price estimated by the electrical utilities.¹⁶ The ERCB (1988) made the following observations in its decision which concluded that the agro-energy project supply price was substantially higher than the alternative coal-based alternative proposed by the Alberta electric utilities:

The ERCB in dealing with economic, orderly, and efficient development in the broad public interest, might consider local, socioeconomic matters but only in situations where costs of competing projects were relatively close.

This case clearly illustrates how a project with large rural development impacts can be hindered by sectoral interests, in this case the monopoly position of Alberta electric utilities. There is no government department in Alberta with the mandate to champion such rural industry projects with major rural development impacts in a low-income rural area in Alberta.

The arrangements recently developed for the Hibernia oil megaproject in Newfoundland and Saskatchewan/Alberta heavy oil megaproject illustrate an alternative private/public investment role in stimulating regional development. A loan guarantee of 20 percent of the Hibernia project cost of \$5.2 billion and a cash contribution of the same amount has been made to start the project. The project would not have been initiated by the private sector without public support. The government receives royalties, and a net profits interest. According to the framework, government recovers nominal investment at average real oil prices of U.S. \$12-U.S. \$13 and

¹⁶ MacMillan, J.A., L.M. Arthur and M. Smith. "Economic Evaluation Methodology for an Alberta Agro-Energy Project," paper presented to the Canadian Agricultural Economics Annual Meeting, Calgary, Alberta, Aug. 23, 1988.

recovers investment with interest at real oil prices of U.S. \$17-U.S. \$19. Government's net real revenue from Hibernia would range from \$3.3 billion to \$5.5 billion if real oil prices averaged \$25 over the life of the project.¹⁷ Hibernia employment impacts are 10,000 person/years in Newfoundland over 6 years plus 5,000 elsewhere in Canada. Indirect plus induced jobs total 30,000.

The Canadian Minister of Energy is defending the Hibernia megaproject on an energy sectoral basis in conflict with the recommendations of his own Energy Options Advisory Committee instituted to guide the evolution of Canadian energy policy into the 21st century. The Advisory Committee recommended that energy megaprojects should not be subsidized for energy security reasons but if subsidies are to be made the rationalization should be on the basis of regional development.¹⁸ The two energy projects discussed clearly indicate the difficulty in implementing projects which may have significant rural/regional development impacts under the mandates of market orientation and narrow sectoral department goals and objectives.

Private sector industrial projects seeking public support or public financing could be justified relative to Canadian regional development objectives. Rankings could be established for low-income regions on the basis of: accounting for the full public sector cost required for private sector project implementation, the likelihood of displacing production by other firms in the region or outside the region, evidence of long-term profitability to prevent firms profiting in the short term from grants and then closing, quality and duration of local regional jobs created, estimates of training requirements to permit maximum local job participation, estimates of other rural/regional development benefits and an assessment of other private and public options, if any, which could generate similar impacts.

Industrial development projects are often justified on the basis of rural/regional development impacts without an examination of alternative means of generating regional development benefits. It is interesting to compare the cost per job of the 10,000 Hibernia/Newfoundland job impacts with the Alberta agro-energy project's job impacts of 7,000 person years over a 20-year project life. The agro-energy projects job impact amounts to 5,000 person years more than the next best alternative of coal-fired generation in Alberta. The mix of construction versus annual job impacts is important. The Hibernia project has large construction impacts but low ongoing operating phase job impacts compared to the agro-energy project. The critical issue is that there is no Canadian institution responsible for planning, directing, organizing, coordinating or controlling industrial incentives directed to rural/regional development goals. Furthermore, cost per job is not considered centrally by the Government of Canada in a meaningful fashion.

¹⁷ Masse, Marcel. Minister of Energy, Mines and Resources, *Financial Post*, Aug. 8, 1988, p. 12.

¹⁸ *Financial Post*, Aug. 8, 1988, p. 12.

POLITICAL/BUREAUCRATIC MANAGEMENT CONTEXT

Rural/regional development goals, policies, programs, and quantitative targets are required. Market versus public good economic rationales implies different goals and policies. Market rationale implies adjustment policies which can likely be efficiently managed through traditional sectoral departments. A public good rationale implies the need for institutional mechanisms to focus on the regional spatial development impacts of sectoral departments ongoing activities.

Rural/regional development in a spatial context requires an intensive "needs analysis" and the development of innovative cost-effective alternatives to meet these needs. Innovative projects then need to be linked to the traditional activities of sectoral departments. Without sectoral department approval and support by local area residents the probability of success of rural development projects will be low.

From a political perspective regions, communities and sectors aggressively compete for public programs because the regional development impacts are recognized as being important. Federal procurement (defense contracts, location of headquarters and service centers for public corporations, etc.) is clearly recognized to have major rural development impacts. From a bureaucratic viewpoint sectoral departments vigorously compete for an increasing share of public revenues. Rural/regional development guidelines developed on a Federal/Provincial basis would promote efficient use of public funds directed to rural/regional development goals.

FRED plan administration and management was unique.¹⁹ A joint Federal/Provincial FRED Board with senior deputy ministers from sector departments were members of the Board. The day-to-day responsibility for plan management was delegated to two coordinators—one Provincial and one Federal. About 50 percent of the \$85 million plan budget could be considered additions to sectoral budget categories of departments. The other 50 percent was allocated to innovative programs which were linked to one or more sector departments.

For example, the \$5 million allocated to Hecla Island Park in the northern part of the Manitoba Interlake area development could be considered as a normal sector expenditure. The related expenditure on linked manpower corps activities included work orientation, construction labor, and support funds as well as infrastructure for the Selkirk Parks Furniture Plant. The Hecla Park is now a first class resort hotel/golf course/campground complex. The park's impacts on the region continue to be significant.²⁰ In addition, the Selkirk Parks Furniture Plant continues to generate significant training benefits for the unemployed in the region including Indians, Metis and high school dropouts.²¹

¹⁹ Hordo, R.J. and J.A. MacMillan. "An Assessment of FRED Plan Management in the Interlake Region of Manitoba," *Canadian Journal of Agricultural Economics*, 1976, pp. 33-48.

²⁰ Brown, N. and J.A. MacMillan. "Recreational Program Impacts: A Dynamic Regional Analysis," *American Journal of Agricultural Economics*, 1977, pp. 750-754.

²¹ Fernandez, M.A. "Evaluation of Manpower Training Programs: The Interlake Manpower Corps," unpublished Ph.D. thesis, Department of Agricultural Economics and Farm Management, University of Manitoba, 1977.

The concept of linking innovative rural development projects under the plan to sector programs was a key factor in agricultural and natural resource/environment sector. Basic skills training for adults was promoted through the plan in the form of grants to individuals to upgrade reading and writing skills and infrastructure grants were made to upgrade area schools. From a development perspective, assistance in the form of land-clearing grants, drainage, training grants were provided to farmers to assist in achieving an increased farm size which would then facilitate improving income levels. From an adjustment point of view land unsuitable for agricultural production was purchased and used for wildlife habitat nesting areas. The Oak Hammock Marsh is an internationally noted wildfowl refuge area. In addition the development of the Hecla Island Park was tied to expropriation of farm land and significant savings in community infrastructure. Island people objected strongly to expropriation. Mobility assistance grants were available in addition to training grants to help people move to better opportunities outside the region. The general criterion was to link innovative development projects to sectoral departments and measure success relative to jobs and income opportunities created per dollar of plan expenditure.

Effective management: planning, directing, organizing, coordination and control, particularly evaluation, are problems which require resolution for successful regional/rural development programs. Financial controls, evaluation, monitoring, feedback and revision of original programs and strategies is required. In setting up DREE in 1968 three options were considered (Savoie, p. 30). First, a super department with sufficient political clout to coordinate other departments, deliver programs and deal with Provincial governments. Second, the Department of Manpower and Immigration was considered as being expanded to include regional development. Third, a typical line department was considered. In 1978 it was concluded that a central agency without programs would be better able to influence other departments (Savoie, p. 78) to ensure that regional development became central to all Federal policymaking. A new central agency, the Ministry of State for Economic and Regional Development (MSERD) was created. Within an envelope system the ministry was to advise deputy ministers and ministers on economic development budget priorities, spending limits and specific expenditure decisions. A senior Federal executive, the Federal economic development coordinator (FEDC) was appointed in all Provinces.

The Federal-Provincial Task Force on Regional Development Assessment²² observed the following with respect to government organization for rural/regional development:

- (1) Joint planning and programming between the Federal and Provincial Governments can provide an effective mechanism to reconcile national policies and regional development;
- (2) sectoral policies and programs are most responsive to regional development objectives when their objectives form part of the collective decisionmaking and pri-

²² Report of the Federal-Provincial Task Force on Regional Development Assessment, p. x.

ority-setting process of Ministers; (3) regionally sensitive implementation of sectoral policies and programs works best when there is a significant degree of delegation to regional managers accompanied by flexibility in program design; (4) the regional effectiveness of government policies and programs is enhanced by advance consultation with the target client groups of the initiatives; and (5) efforts to strengthen the economic structure of less-advantaged regions will require a proactive government role with the private sector, backed by resources and a willingness to innovate and experiment with policies and program design.

SUCCESSFUL RURAL/REGIONAL DEVELOPMENT

Insufficient attention has been paid to the objective scientific measures required to demonstrate to the "public" that a rural/regional development program or project has or has not been successful.²³ Given that there are few accepted measures of rural development performance it is not surprising that there very few cases of "successful" rural development programs and that there is widespread disagreement on how to best promote rural/regional development. For example, the Economic Council of Canada has ignored the FRED plan concept in several Canadian regional development studies over the last 10 years. By focusing solely on National and Provincial fiscal policy instruments in its studies, sub-Provincial low-income regional pockets of poverty have been ignored, as well as the sub-Provincial impacts of commodity price cycles. It is reported that the FRED approach has recently been discovered by the Economic Council of Canada and will be recognized as being successful in a forthcoming report.

According to the following measures Manitoba's Interlake FRED plan was a success. First, on the basis of average income data the Interlake is no longer one of the worst pockets of poverty in Canada. The Interlake Region's Income Rating Index by Census Divisions is CD18(68), CD14(92) and CD13(105). The average index weighted by population for the Interlake is 89. There are 37 Census Divisions in Canada with a 1986 income rating index less than CD18(68).²⁴

Second, comparing regional economic simulations for the region with and without the \$85 million plan it is estimated that about \$1,000 per capita income (1968) was generated by the plan. The Interlake area population in 1968 was 54,000. The regional economic simulation model was based on an input-output table and incorporated demand as well as supply relations in the dynamic model.²⁵ The model was based on detailed household, farm, business, and government surveys.

Third, positive impacts on program beneficiaries are documented in detailed special research studies of program impacts, e.g., manpower corps, farm development, drainage, fisheries, recreation, and

²³ MacMillan, J.A. and J.D. Graham. "Rural Development Planning: A Science?" *American Journal of Agricultural Economics*, 1978, pp. 945-949.

²⁴ Canadian Markets, *Financial Post*, Toronto, Ontario, 1986, pp. 10-21.

²⁵ Tung, Fu-lai, J.A. MacMillan and C.F. Framingham. "A Dynamic Model for Evaluating Resource Development Programs," *American Journal of Agricultural Economics*, 1976, pp. 404-414.

others which measured economic efficiency by benefit/cost ratios where possible and included income distribution impacts relative to the income levels of program target clientele. About \$1 million was spent on the research. A large part of the research support came from academic research grants not the plan. A major benefit of the research was the training of graduate students through thesis research. Fourth, peer group assessment of results published in journals, research bulletins, and books has guaranteed public and professional scrutiny of the evaluation results. Lastly, positive testimonials have been made by knowledgeable experts who have visited the Interlake region during and after the 1967-77 plan period.

A critical issue concerns the replicability of the FRED rural development results in other regions. Essential factors are discussed below under three headings: human resource development, institutional, resource and infrastructure development, and regional/spatial approach. Human resource development is judged to be the essential ingredient of successful rural/regional development planning. Institutions, organizations, and projects with concrete benefits are required to improve the capacity of people and promote enthusiasm for participating in development. Local area development boards and advisory board institutions were organized. Prior to the signing of the Agreement a 2-year "needs analysis" as conducted to determine local preferences and Federal/Provincial sectoral objectives. The manpower corps and basic skills training programs were structured to improve the capacity of the region's people to interact with government and the business community.

The FRED Board of senior deputy ministers can be viewed as an institution created to ensure Federal/Provincial policy consistency and continuation of financial and other resources for the 10-year duration of the Agreement. The 10-year focus is critical. There is general agreement by development economists that at least a 10-year period is required for successful development projects. Major infrastructure investments were made to facilitate development. School, highway, drainage, veterinary clinics, and park facilities were constructed to remove constraints to development. Such projects have an immediate short-term job impact and generate a flow of long-term benefits which are difficult to measure.

The regional/spatial approach provides a useful focus for successful development. Anthropologists have long recognized the "territorial imperative." A regional identity if it can be promoted will facilitate participation by residents in the development plan activities. The region's commodity base will be a constraint or a stimulus depending on the stage of the commodity price cycle for the region's export base. The economic linkages between the region and major metropolitan markets will provide spillover benefits outside the region and could provide a "market failure" public good rationale for political support outside the region.

In conclusion there appear to be two fundamental rationales for rural/regional development programs. First, dramatic fluctuations in commodity price cycles creates the need for the market oriented community and commodity stabilization adjustment strategies on a regional basis. Second, regional rural and urban pockets of poverty can be identified as deserving special attention on the basis of a "market failure" public good rationale. Under both rationales a

strong case can be made for a central management institution to identify and organize linkages between innovative projects and ongoing programs of sectoral departments.

NEW YORK STATE RURAL DEVELOPMENT INSTITUTIONS

By Ron Brach ¹

This paper presents a progress report on recent steps taken by New York to devise more effective State rural development policy and programs for the next two decades. It is hoped New York's experience will assist Federal policymakers in their efforts to help address the needs of rural America in the 1990's and beyond.

I am giving these remarks in my capacity as executive director of the NYS Legislative Commission on Rural Resources—a joint, bipartisan State legislative agency consisting of five senators and five assembly members, five Republicans and five Democrats. On behalf of the commission, Senator Charles D. Cook, its chair, extends his best wishes in your efforts to promote a vital future for the 60 million rural Americans in this Nation. Rural citizens seek the best our rural heritage and way of life can offer, but they also need and deserve the best our modern social and economic structure can provide.

People who are unfamiliar with New York State may ask about the relevance of this State's experience in promoting proper rural development policies for the 1990's. The assumption is that the needs and interests of the "Big Apple" and the metropolitan centers of industrial Buffalo and Syracuse and high-tech Rochester, Binghamton, or Albany, for example, preoccupy New York State government. People recall the cover page of the New Yorker magazine a few years ago depicting the New Yorker's view of the U.S. as being New York City, the Hudson River, and then the West Coast with nothing but jet flyover areas in between.

In fact, your average citizen in any other country believes New York City is the capital of the United States. People's exposure to the U.S. is mainly through commercial TV broadcast by New York City networks.

Still, New York State government has begun recently to promote a comprehensive rural agenda distinct from policies and programs aimed primarily at metropolitan centers and large cities. What has brought this about?

There are 3 million citizens who live in rural New York, a number larger than the total population of 25 other States. And 80 percent of the State's vast land area is rural in character; consisting of 40,000 farms, extensive forests, mountain ranges, and hundreds of lakes, small cities and villages. Most of this territory lies west of the Hudson River.

Over the past 5 years I have visited many urban and rural areas of New York State and the U.S. and have discussed their present situation with people there. Most recently, I was a member of a

¹ Executive director, New York State Legislative Commission on Rural Resources.

U.S. rural health care delegation to the People's Republic of China. One is struck by the great deal of diversity that exists among rural areas everywhere.

Yet, the similarities are striking as well. A characteristic shared by most rural people is the relative deprivation they experience compared to their metropolitan cousins. In the U.S., 75 percent of the population lives in metropolitan areas. In China, 80 percent lives in rural areas. However, in both countries, it is the metropolitan centers that dominate national and provincial agendas.

The central point of this paper is that public policy and institutions in rural New York and, indeed most everywhere else, are dominated by metropolitan centers. Such clout has tended to subvert and distort the needs of large segments of our national populations.

Rural citizens in the most sparsely populated areas in the U.S. are not free from domination by a few metropolitan centers within their States. For example most recently the State government in Nevada proposed to create a new rural county from pieces of two existing rural counties so that Federal hazardous waste could be disposed of in the new county but under the control of the State. Thus the millions of Federal dollars coming with the waste would also be controlled by the State government, which in turn is controlled by a few metropolitan centers such as Reno-Sparks and Las Vegas.

I suspect the dominance of metropolitan centers has something to do with their relative concentrations of population, financial and other resources. In most sociopolitical contexts large institutions can and do exert greater influence regardless of whether they are located within either urban or rural areas. Big hospitals generally are more powerful than small ones within a community, as are large schools, colleges, businesses, and so forth.

Thus, unless caution is exercised, the larger, more powerful institutions will dominate smaller ones in any social or governance system. That is one reason rural communities surrounding a metropolitan area are cautious about joining regional planning efforts whose locus of power is the dominant metropolitan center.

The concentration of population in each of our States within a relatively few metropolitan complexes has accelerated since the Second World War and the baby boom that followed. This remarkable demographic event, coupled with the landmark "one-man-one-vote" decision by the U.S. Supreme Court in 1961, was the *coup de grace* for previously influential rural voices in statehouses all across America. In just one generation the majority of legislative representation in each State shifted to the relatively few, but more populous metropolitan areas.

Often, large imbalances are created. In New York, for example, there are nine rural State senators out of 61 and 22 rural assembly members out of 150. Consequently, rural influence in the New York State legislature has been virtually eclipsed following the 1961 decision.

The reduction of rural influence in the statehouses of America has occurred in the U.S. Congress as well, and for the same reasons. Of course, the most significant impact has been felt in the House of Representatives which is apportioned according to popula-

tion size and distribution. In the U.S. Senate each State still has two Senators regardless of land area or population size. The framers of the Constitution did this in part to win its ratification by the then smaller States such as New Jersey.

Diminished rural representation in State and National institutions and the relative powerlessness of small rural places has made a difference in the development of rural public policy in recent decades. More importantly, the relative well-being of rural citizens compared to their urban cousins has been affected.

In recognition of the relative importance of the State's vast rural resources to its future development, but lacking a comprehensive picture of the impact of current State policies on rural New York, the State legislature decided to undertake a thoughtful assessment of the State's rural areas. State policymakers created the Legislative Commission on Rural Resources in chapter 428 of the laws of 1982. The law directed the Commission to examine the impact of rural resources on the State economy; to review existing State laws, programs and regulations; to assess their effect on rural areas; and to make recommendations to the Governor and the legislature as it determines necessary for the enhancement and protection of the State's rural resources.

The 1982 legislation declared the well-being and quality of life of the people of the State as being clearly related to the State's rural resources. Significantly, rural areas were declared to offer an important alternative to urban living. Moreover, the law stated cogently that rural resources and environs are indispensable, decentralized, diverse and unique; and that their enhancement and protection require special attention in view of their characterization and needs.

The creation of the State Legislative Commission on Rural Resources in New York demonstrated to citizens that, after many years of relative neglect, a renewed interest and commitment to rural New York by State government was possible. A wellspring of interest and energy was tapped. This response stemmed in many respects from rural citizens' sense of frustration and powerlessness to control their own destinies in modern society.

Daily, citizens experience increasing difficulty in working with the growing array of external institutions that directly control their lives and communities. People in small rural places feel particularly alienated since most of these agencies are directed from distant metropolitan areas and often show insensitivity to special rural needs.

The creation of a new rural awareness, perspective and working partnership has been key to the successful formulation and implementation of rural policy and programs in New York since the Commission was established. It has entailed a virtual rediscovery of rural New York as we enter the 21st century.

A grassroots approach has been emphasized throughout so that the identification of rural development challenges and responses has come from people in all sectors of society and levels of government. Most important, rural citizens have been enlisted as partners in the State decisionmaking process.

Another distinguishing feature has been New York's multifaceted strategic planning approach. This was done in the belief that

the needs and challenges of rural New York are related to one another: that job development, for example, is related to training and education, adequate housing, infrastructure, community services, health care and so on; as are improved environmental planning or stability of the agricultural sector. In short, all facets of rural life and communities have been included in the policy development process.

A major impediment and challenge to rural development policy-making is the structure of State government. Most State legislatures and executive branch agencies are organized in accordance with subject matter disciplines; i.e., agriculture, economic development, education, health care, transportation, etc. Characteristically, each agency or committee addresses itself to developing uniform policies that are designed to be applied in a more or less monolithic fashion statewide. While such topics are often pertinent to rural areas, policies are usually framed from a metropolitan perspective or set of assumptions. Consequently, small and less densely populated rural localities are forced to conform to prescriptions that may be unworkable because they have a strong metropolitan bias.

State policymakers may never have seriously considered the impact of proposed legislative, fiscal or regulatory measures on citizens in rural areas. Even less likely would be any attempt on their part to unify rural policy in one or more subject areas. Overall development and coordination of policies and programs specifically for rural areas characteristically doesn't happen.

Such failures in rural development policy have had a grave, disintegrating effect on rural New York. I assume the same situation exists in the Federal Government as well. To point out and support remedies for such inadequacies in New York State has been a major responsibility of the Commission.

The greatest influence on the Commission's success has been the leadership and commitment given by its legislative policymakers. The sincere interest and support of both urban and rural legislative colleagues has been crucial as well. Their joint efforts have been guided and supported by a systematic, sustained strategic planning process over a period of 5 years at this writing. One of the most vital of their many achievements thus far has been to focus the attention of State government and the media on unique rural needs and conditions.

Once it got underway in February 1983, members have helped lead four statewide rural development symposia, some 26 public hearings, and dozens of onsite meetings with the media that have been held by the Commission. Commission members thus established an intensive schedule of public participation and consciousness-raising activities anticipating that an accurate needs assessment and innovative recommendations could be best obtained by involving people from all sectors interested in rural New York.

Two statewide rural development symposia held early in the policy development process were the cornerstone of these efforts. Each symposium was a highly structured 3-day retreat. It involved elected and appointed officials, professionals, academicians, and the public in frank shirtsleeve discussions on nine policy subjects. At the first, held October 1983, participants' sights were limited just to examining trends and assumptions; defining problems and weak-

nesses; cataloging strengths and assets; and formulating goals for rural New York over the next two decades in each of the nine topics. The focus was on State and local initiative and not what the Federal Government or others should be doing: In short, matters over which New York had some control.

Following the first symposium, preliminary reports containing proceedings for the nine policy subjects addressed by participants were released along with pertinent research data. These became the basis for public hearings and news conferences held around the State by the Commission members. Public awareness and discussion of rural development issues and conditions were thus significantly enhanced and broadened. Again, the focus was on getting an accurate assessment of the situation and on promoting the thoughtful discussion of possible State and local initiatives.

Findings from the first symposium and public hearings were integrated into a report issued in January 1985 entitled "Rural New York in Transition." Also sponsored by the Commission during this period was a comprehensive investigation by Prof. Paul Eberts of Cornell University of 36 demographic and socioeconomic indicators of well-being in rural and urban counties over the past three decades. The report, "Socioeconomic Trends in Rural New York State: Toward the 21st Century, was issued September 1984. It too served as a basic resource document for symposium discussants.

Together, the findings of both efforts were very provocative and served to focus discussions at a second rural development symposium held by the Commission February 1985. Unlike the first symposium, but building on its results, the task given invited participants at the second was to specify three priority goals and then to formulate action strategies for accomplishing them. Consideration was given, of course, to the needs, strengths, and limitations previously identified. It was a classic strategic planning process throughout although not labeled as such.

As for the first symposium, a series of nine preliminary reports were issued, one for each policy subject. Again, these served as a basis for discussions at public hearings and press conferences held around the State. Our objective was to heighten public awareness and get additional comments and suggestions on the goals and strategies recommended by symposium participants.

A year later, in 1986, a comprehensive package of 10 bills was introduced in the State legislature by the Commission. Each bill was aimed at a specific goal and one or more strategies identified in the rural development symposia and public hearings. Five measures were passed by the legislature and signed into law by the Governor that year. In each succeeding year, previously unpassed bills have been reexamined and additional measures drafted and introduced, all aimed at specific goals and strategies suggested by participants in symposia and public hearings held by the Commission.

The year 1988 marked a significant new step for the Commission in that, for the first time, it proposed an extensive rural development funding package in the State budget. There were seven budget initiatives, again aimed at symposium recommendations. All were approved in the 1988 legislative session.

Has it been expensive to support a State effort such as that undertaken by the New York State Legislative Commission on Rural

Resources? Given the State's past reputation for throwing money at problems, the observer could easily estimate a budget in the millions of dollars. In fact, the Commission's operating budget its first year was \$150,000. Currently its annual expenditures are approximately \$275,000.

Substantial resources and energy external to the Commission have been mobilized along the way. In keeping with its philosophy and purpose, the Commission has sought to get diverse legislative committees, agencies, groups, and programs to work together, and to combine their efforts through a joint democratic process. Fundamentally, the Commission seeks to empower and amplify the efforts of others who are interested in working toward the enhancement and protection of the State's rural resources.

This philosophy is consistent with specifications given participants in the Commission's work every step of the way. That is, "Yes, there are needs and challenges to be addressed in rural New York. However, please first consider how we might do things differently or at least more cost effectively, as opposed to just requesting more money or staff."

Are there findings and themes stemming from the recent rural development efforts in New York State that have implications for initiatives at the Federal level and perhaps in other States? I believe there are.

First, throughout our work we have been continually reminded that the State's greatest resource is its people and institutions. Without their proper stewardship and encouragement, all other rural development improvement efforts will fail.

Second, rural New York is in transition. It is not static, nor can it be described in Norman Rockwell images of "Pa" in his bib overalls and "Ma" in her calico dress riding in their pickup truck to the nearby general store as was depicted by the mayor of the city of New York in a now-famous interview with a prominent national magazine. Unfortunately, rural areas in other States are also characterized by such distorted views.

Consequently, a blurred picture of rural New York and rural America has shaped much State and Federal policy development and programs. This image has been clouded most seriously by the media; which in turn influences powerful decisionmakers and public opinion.

Another recurrent finding is that rural areas have been treated as backwaters of our State and National mainstreams. Indeed, in some contexts rural areas are regarded as colonies under the same flag.

We have also found that agriculture and other natural resource sectors remain the single most important economic and social influences in rural New York, and indeed, rural towns have succeeded in preserving some of the atmosphere and grace of an earlier day. But, the failure to recognize rural localities as an essential part of the State mainstream and in the context of their newly emerged economic and social structures has brought about the evolution of governmental policies which all too often ignore their special needs and conditions as well. Consequently, wasteful and ineffective use in made of substantial State resources found in its rural areas, the

most significant of which as noted earlier is the human and institutional resource base.

Of course, rural New York was seriously neglected in State policy during the national "Crisis of the Cities" and "War on Poverty" movements. However, the biggest failure occurs when State policymakers simply treat rural needs piecemeal, as an adjunct or clone to urban strategies.

The relatively strong agribusiness lobby has been particularly effective in promoting a one-sided view and myths about rural America. This approach has contributed greatly to policymakers' ignorance or neglect of other essential aspects of rural life; namely, education and training, health care, transportation, environmental quality, local government management, human services, housing and community facilities, and economic diversification.

Yet, socioeconomic and demographic trends over the past three decades have created a rural society whose needs strongly resemble those of citizens in urban America. We have found, for example, that about 70 percent of the rural population is employed in the services sector just as in metropolitan areas. Another 20-25 percent of rural citizens are employed in manufacturing, and 5-10 percent in production agriculture or extractive industries.

We have been particularly surprised to find the elderly population segment growing faster in rural than in metropolitan areas. Indeed, some rural counties, and even whole States in the farm belt, have a higher proportion of elderly citizens than the so-called sun belt retirement areas such as Florida or Texas. This is because community stagnation in rural areas encourages mobile young people to move elsewhere in search of greater opportunity. Conversely, many small towns in rural America are considered attractive places to live for retirees. In some, this expanding population group represents a growth industry of boom proportions.

Generally, rural population and job growth have been greatest in areas that are within commuting range of metropolitan complexes. As transportation improves, commuting distance increases and congestion in inner areas causes business to decentralize in order to regain lost efficiencies.

Indeed, with continued development of the information economy and modern telecommunications technology, the future telecommuter may locate far away in a distant rural area, city, or even another country. We would do well to consider the implications of these realities for rural development policies.

The emergence of a competitive global economy and subsequent decline in high-paid, but low-skilled manufacturing jobs has forced poorly educated and unskilled rural citizens from the economic mainstream. Even our agricultural sector is not immune to increased competition from offshore foodstuffs. Consequently, a significant amount of retraining coupled with targeted development of rural business and industry is needed.

Most rural communities beyond a reasonable commute to a metropolitan job market are stagnating. Such areas are having great difficulty adapting, unaided, to modern socioeconomic structures and conditions. Being relatively small and remote by today's standards with a limited resource and population base and no particular distinguishing features, they are definitely under great stress. Most

of their old industries have not adapted successfully to the new global economy and have closed or reduced their operations.

Other establishments with local roots have become components of large externally controlled conglomerates whose headquarters are usually in a remote metropolitan area. Frequently such plants are later relocated to another region.

The immigration of urban transplants and retirees with high incomes causes a gentrification of rural areas. Housing and land costs escalate and new landowner attitudes and land use patterns begin to engulf and eventually dislocate many vulnerable populations, industry, and businesses. Agricultural and forestry industries and low-income population groups are among the first to be threatened.

We have been particularly dismayed to find a growing disparity in rural family income and access to essential community services compared to metropolitan citizens. Average family incomes in metropolitan counties increased 60 percent more than those in rural counties between 1950 and 1980. Updated figures for 1987 show the disparity continued to widen during the 1980's.

Formal educational attainment is lower among citizens in rural than in metropolitan areas. This is partly because highly educated youth migrate away from rural areas having few job opportunities, thus creating a so-called brain drain.

We also found social pathologies in rural counties that equaled or exceeded those in metropolitan counties. Marital disruptions are equal to urban rates. Alcoholism and family violence exceeds them. Suicide and adolescent pregnancy rates are higher in rural counties. Unemployment and poverty rates are higher as well.

The health status of rural citizens is lower on several important measures. We found, for example, a higher proportion of low-birth-weight babies in rural than in metropolitan counties, a leading cause of infant death and developmental disabilities. There are higher rates of motor vehicle and other accidental deaths in rural areas as well.

Yet, access to community health resources is more limited for rural citizens and may be reduced even further if current trends and public policy continue. Such key components of rural health delivery as emergency, diagnostic and treatment, hospital, and primary care coverage are fast being eroded in rural communities.

For this reason the Commission has devoted almost exclusive attention during the past 2 years to rural health challenges in New York State. A State leadership vacuum regarding rural health delivery systems and policy development was discovered during public hearings the Commission held following its second symposium. Small rural hospitals were being ordered to close by the State Health Department; serious rural health manpower shortages existed; and there were no other institutions willing and able to deal with such crucial rural health issues.

In retrospect, many valuable experiences and lessons were gained through the Commission's involvement with rural health. Most are transferrable to other policy topics vital to rural development.

What has been learned? A distinct rural, as opposed to single metropolitan-oriented, public policy is required. It must include es-

establishment of proper perspective and new institutional working environment; greater representation of rural voices in policymaking forums; proper communications, coordination, and cooperative efforts among Federal, State, and local, public and private agencies; increased joint ventures, networking and integration of resources; enhanced applied research and development and information sharing; and improved access to financial and personnel resources.

Unless such special steps are taken, it is questionable whether rural services and the best qualities of our rural heritage can be preserved or enhanced in the current metropolitan dominated society.

Key rural service systems experiencing great stress are health care, housing, roads and bridges, public transportation, water and sewer systems, air and rail systems, solid waste disposal, public education, mental health services, financial services, and local government management of community growth and change. Agricultural, business, and economic development components need to be redirected and strengthened also.

Often the response to deteriorating community services by State bureaucrats and advisers is to raise standards. Such an approach for rural areas may be unrealistic or inappropriate and may actually result in the elimination of all service as in the case of volunteer emergency services in many areas. Such insensitivity often causes the "patient" to die sooner because of the treatment, which in fact is the hidden agenda in some instances.

Rural citizens have been partly to blame. With few exceptions, notably the agricultural lobby, rural citizens have not been particularly vocal or persistent in advocating their interests in State government or other influential institutions. Rural advocacy efforts have not been especially strong in national forums either. Only recently has there been increased organization and commitment.

The limited resources devoted to rural advocacy efforts are further hindered by their fragmentation among a relatively few special interests. When coordinated as part of a larger coalition, individual efforts can be accentuated. Otherwise, rural voices will continue to be drowned out by the more numerous, vocal metropolitan interests whose deeper pockets also promote more effective lobby efforts.

A local school aid funding bill enacted into law by New York State government will illustrate.

Because property values had increased double-digit rates in metropolitan areas while more modest single-digit rates were experienced in poorer rural areas, metropolitan legislators and the Governor were faced with the prospect of redistributing school aid to these poorer school districts. Controlling metropolitan interests were successful, however, in freezing property assessment figures at previously lower levels more favorable to their constituents; in effect changing the rules to assure the desired outcome.

In this instance, much more than rural education was affected. Housing costs, agriculture and business taxes, community services, and infrastructure funding were also negatively impacted because additional State aid was not distributed to the poorer communities in accordance with their proportionately greater need.

Perhaps unaware of the situation rural interests were unsuccessful, nevertheless, in challenging metropolitan tinkering with State school aid allocations.

For many years the State Grange was the unifying advocate for rural communities. Its work was complimented by the State Farm Bureau, whose primary concern was agriculture, and the Soil and Water Conservation Society that stressed natural resource issues. Born decades ago when our cities and rural America looked and functioned much differently, these groups have not changed their focus greatly to reflect modern society.

Conversely there may be occasions when certain urban and rural interests can join forces. We have found, for example, that small rural hospitals have a lot in common with small urban hospitals. Similarly, poverty-stricken central cities and poor rural areas have many common interests.

Two new advocacy groups in New York, the Rural Schools Association and Rural Housing Coalition, have been formed during the past decade. In some instances rural adjuncts to existing statewide organizations have been created as a subcommittee or task force; e.g., the State Home Care Association and the Hospital Association both recently formed rural tasks forces.

At the National level, the Council of State Governments recently formed an Agriculture and Rural Development Task Force. Also, an increasing number of associations have created one or two slots or even a whole track as in the case of the National Association of Counties on the annual conference program for discussion of rural issues. Prior to the resurgent interest in rural America, interested participants in most organizations did not have a forum conducive to discussion of rural issues during the typical conference session.

A significant new functional office was added to New York State government in 1987. As a result of legislation written and introduced by the Legislative Commission on Rural Resources, a State Office of Rural Affairs has been created in the Governor's cabinet structure. The new office, funded at \$750,000 per year, serves as a clearinghouse and advocate for rural communities and citizens within the executive branch of State government. Further, the office will foster healthier working partnerships, and improve access to State and Federal resources.

Some initial activities have included a "listening day" where 800 interested rural citizens were given the opportunity to have an exchange of questions and responses with State agency commissioners; an exhibition for rural industry in the State Convention Center; the creation of an interagency task force; development of a computerized database on State programs available to rural areas; and liaison with USDA Food and Agriculture Committee efforts to coordinate Federal rural development program activities in the State.

It would be staggering to the part-time rural official to consider that with just one representative from each State agency serving, still there are 50 members on the new Interagency Rural Task Force formed by the Office of Rural Affairs. How can we expect such officials who usually don't have full-time professional staff assistance to deal effectively with these agencies, assuming they even know of their existence.

Nevertheless, the situation can and does get more challenging when the local official must deal with a particular agency or functional area such as health care, education, transportation or some other community priority. Take health care for example. We have identified 14 Federal agencies; 16 State administrative agencies; 15 State executive boards and councils; 23 State legislative committees; and 33 State associations and interest groups which impact rural health care services in New York. A principal duty of the newly created State Office of Rural Affairs is to assist rural local officials to deal successfully with the State and Federal bureaucracy and with similar private sector challenges.

Other institutional experiments are in progress in rural New York. One, the Tug Hill commission, established in 1972 addresses the need for access to local technical assistance by rural government officials. The agency is a five-county regional institution governed by local interests. Supported by a heavy dose of State funds and a local match, the agency performs research, promotes intermunicipal cooperation, and assists with local problem solving. Circuit riders form the backbone of technical outreach services provided rural localities within the region. Intergovernmental associations of local towns and villages guide these efforts. The Tug Hill program also serves informally as a laboratory for the development of new rural local government models.

In 1980 a new State law (chapter 347) provided for the establishment of Rural Preservation Companies to serve rural areas and Neighborhood Preservation Companies to serve the cities. Both are not-for-profits. They receive administrative funds from the State. The rural groups build and operate low- and moderate-income community housing.

There are currently 85 rural preservation companies serving in the State's rural counties. They are strong local as well as State advocates for rural community development efforts and low-income persons.

The Adirondack North Country Association is a regional public-private not-for-profit corporation that was established years ago as a private group of interested citizens. Currently, its territory consists of the 14 counties north of the Mohawk River, encompassing almost one-third of the State land area. A distinguishing feature is the 6-million acre Adirondack State Park which occupies the majority of the land area in the region and is widely considered to be a resource treasure of national proportion being three times the size of Yellowstone Park. About half the land in the Adirondack Park is privately owned.

Another unique aspect is the association's focus on small versus megaprojects. The objective is to promote innovative projects that use indigenous resources, are homegrown and require small amounts of seed capital to get started. The association program is now heavily supported by a recent infusion of State dollars for local project grants. Private capital raised through donations, supplements these activities.

In 1987, the Commission assisted in the establishment of a 16-member rural health cooperative that includes providers in five counties on the State's western frontier. The Robert Wood Johnson

Foundation has provided the bulk of the financial support necessary to get the effort started.

In 1988, the State legislature funded a substantial Rural Resource Commission budget proposal to augment the networking, research, and physician training and recruitment efforts of the Western New York Rural Health Cooperative. The State University of New York at Buffalo Medical School and its Family Medicine Department are providing the technical expertise to implement this aspect of the rural health cooperative effort.

In response to recommendations the Commission received from participants at its rural health symposia and public hearings, it also introduced legislation to establish a State Rural Health and Human Services Advisory Council within the State Office of Rural Affairs. The measure was resisted by the State Department of Health and passed only one house in the legislature. Subsequently, the State Health Department established a Rural Health Advisory Council within the health agency, that will submit proposals to the Planning Committee of the State Hospital Review and Planning Council. Time will tell if rural health policy and voices are represented effectively through this alternative institutional arrangement.

The Legislative Commission on Rural Resources has proposed institutional responses designed to enhance rural representation in State public policy forums. The Public Health Council in New York State government, for example, is a powerful citizen board that regulates State and local health care services. There are 14 public members provided in statute, appointed by the Governor with the consent of the State senate.

Remarkably, there isn't a single local rural representative on the Public Health Council from any of the 44 rural counties in the State, a situation we found has persisted for a number of years. Meanwhile, the State's rural health system, as mentioned previously, has been experiencing traumatic upheaval. Similarly, we have found inadequate local representation from rural areas on other powerful State boards.

Commission members are particularly pleased the U.S. Congress created the National Rural Health Advisory Council within the Federal Department of Health and Human Services in 1987. The need for rural input on Federal health policy is crucial also. Senator Cook, chairman of the Legislative Commission on Rural Resources, is pleased to serve on that public body and to have been nominated by the entire New York State Congressional Delegation.

Other rural health measures have been implemented in response to commission findings and recommendations. A grant program has been funded to support rural health research and internships for graduate students in the State's universities. Rural health diversification and networking grants have also been funded. A special capital finance loan program for small rural health providers has been established within an existing State public benefit authority, the Medical Care Facility Finance Corporation. Also, a required study of the fiscal impact of the State's case payment system on rural hospitals was written into the new hospital reimbursement law, as was legislation calling for a revamping of the State-supported local health planning system.

Again, the areas of greatest need in rural development efforts have been distinct rural policies; increased rural representation in policy forum; new State-local partnerships and communications; new resource integration, networking and joint ventures; expanded research and information; and added personnel and financial resources. In all such matters achievements will be greatest when a proper perspective, working environment and understanding of special rural needs and conditions serve as the foundation for public policy development.

From these remarks it might seem as though the Rural Resources Commission has focused primarily on rural health care. Actually, initiatives have also been developed in agriculture; economic and business development; education; environmental, land use, and natural resources; transportation; human services; community facilities and housing; and local government management sectors as well.

The Commission has initiated demonstration projects in high-need, but risky areas also. For example, a modern telecommunications and computer network was established to enrich and expand curricular offerings in small rural schools through interactive distance learning teaching methods. The project was a joint Federal-State-local, public-private effort adapted to the unique needs and conditions associated with the delivery of rural community services and economic development strategies.

Finally, I have attempted to present a thumbnail sketch of State rural development institutions in New York. This paper cannot in the space allowed cover all details about pitfalls, strategies, and skirmishes won and lost.

It has been particularly distressing to find that underdeveloped community services and related deprivation characterize most rural areas. Still, many people choose to live there because of compensating benefits. Others have precious few alternatives.

We can no longer assume that rural citizens have the best our modern society can provide. Through neglect and misunderstanding, they are falling further behind their cousins in Metropolitan America.

The consequence has been to increase inequality and to waste precious human, cultural, and natural resources. No State can afford to do this in today's competitive global economy.

But the situation can change. Based on the commitments made in New York in recent years, I believe State government can and will be responsive to compelling rural needs when they are properly diagnosed, and new strategies are properly devised and presented.

All such efforts require the support and interest of caring elected officials and professionals. Above all, they require an ability to listen to the voices of rural citizens who perhaps sense the proper course of action that will preserve the best our rural heritage can offer, while at the same time achieving a proper adaptation to the mainstream of our modern socioeconomic and political structures.

There is a renewed, even nostalgic interest in rural and small town America. Close to half of respondents polled by Gallup in 1985 expressed a preference for living in a town of less than 10,000

people or a rural area. But less than one-third of the population actually lives in such areas.

Real estate developers satisfy the modern urge for small town living by building "urban villages" within our sprawling metropolitan complexes. The point is, the revival of interest in rural New York and rural America is occurring in a contemporary context, and not as a throwback to a way of life that people today can only choose to revisit and not actually live. The snow of yesteryear now is created by artificial snowmaking equipment in many rural areas.

FEDERAL ORGANIZATION FOR RURAL POLICY

By William J. Nagle ^{1a}

INTRODUCTION

Early in the Carter administration, the National Academy of Public Administration was asked to convene a panel to advise USDA's Rural Development Service on its chief mission: assisting the Secretary of Agriculture to carry out section 603 of the Rural Development Act of 1972. That section mandated the Secretary "to provide leadership and coordination" on rural development within the executive branch and "assume responsibility for coordinating a nationwide rural development program . . . in coordination with rural development programs of State and local governments."

One of many important insights that emerged from the Academy's eight-member panel is that "the organizational framework for rural development will be more effective if policies relating to rural development precede organizational recommendations."^{1b} In other words, organization flows from policy, it does not precede it. This stands as Truism No. 1 for this paper. Therefore, whatever is said here about "Federal organization for rural policy" should be modified and changed depending on what rural development policies emerge as we begin a new administration and prepare for a new decade.

Sandra Osbourn brilliantly points up the dilemma of the 1980's, characterized as they were "by the simultaneous presence of two national rural development policies":

The first consists of the remnants of policies, institutions and tools that have evolved since the Federal Government became involved in nonfarm rural development through the New Deal programs. The second consists of the Reagan Administration's policy of removing the Federal Government from rural development activities as much as possible, leaving such development to the more appropriate free market and state and local sectors.²

One may disagree with the rural development policy of the Reagan administration, but one would have to say that given that policy, it was appropriate that the various organizational structures put into place by earlier administrations be either dismantled or left unused. As Osbourn correctly says in another paper, "the

^{1a} Senior associate for policy affairs, World Resources Institute, Washington, DC.

^{1b} "Alternatives by Which the Secretary of Agriculture May Provide National Leadership and Coordination of Rural Development Activities." Attachment to letter from George Esser, president of the National Academy of Public Administration to William J. Nagle, Administrator of the Rural Development Service, USDA, Sept. 20, 1977. Henceforth cited as "Academy Report."

² Osbourn, Sandra S., "Rural Policy in an Era of Change and Diversity," Congressional Research Service Report for Congress, July 13, 1988, p. 31.

governing philosophy of the Reagan administration holds that an active national rural development policy violates correct relationships within the Federal system and between public and private sectors."³ It is, of course, only an "active" policy that requires organizational structures.

Were the Reagan administration to have a third term, there would be little justification for a paper on Federal Organization for Rural Policy. A premise for this Symposium is (that) if a new administration will chose a more active rural development policy. Therefore, it is appropriate to ask what policy is desirable and what Federal organization for that policy would be fitting.

This paper will address two topics directly related to Federal organization: Washington-level leadership and coordination, and the role of Governors. It will also comment on the current lack of a constituency for rural policies, and will finally make suggestions for a new administration.

THE WASHINGTON LEVEL

In what cabinet department should rural development be placed? President Nixon proposed to the Congress on March 25, 1971, a reorganization that would have created a Department of Community Development. It would have placed most of the Department of Housing and Urban Development, OEO's Community Action and Special Impact Programs, Commerce's Economic Development Administration and the Federal Regional Commissions, and most of the Appalachian Regional Commission in the new department. From USDA would have come the Rural Electrification Administration and FmHA's Water and Sewer programs.

Coupled with this proposal was a special revenue sharing proposal that would have consolidated 11 programs into a single rural development sharing fund, to be allocated to the States according to a formula.

This and other reorganization proposals made by President Nixon were based in large part on the recommendations submitted to the President by his Advisory Council on Executive Organization, commonly referred to as the Ash Council, after its chairman, Roy Ash.

Four basic problems of existing Federal organizations identified by the Ash Council were these:

The effective pursuit of National social and economic goals is impeded seriously by ambiguity in the definition of agency missions and the jurisdictional rivalry between agencies inherent in the departmental structure of the Executive Branch.

Both the exercise of executive leadership and the decentralization of authority to Federal field offices is made difficult by the existing departmental structure, and the form and content of the delegations of authority from Washington agencies to their field offices.

³ Osbourn, Sandra S., "Rural Policy in the United States: A History," Congressional Research Service Report to the Congress, July 13, 1988, p. 67.

The absence of an overall government view of the grant process centered on results has led to great inefficiency in that process, damaging to the credibility of the Federal Government and diminishing the effectiveness of the programs in which grant-in-aid are used.

A serious byproduct of the Federal grant-in-aid process is the undermining of the leadership capability of governors and mayors and the priorities of local governments.⁴

There was strong similarity between President Nixon's reorganizational proposal for a Department of Community Development and the proposal which President Carter's reorganization team made to him. Carter did not act on the proposal. The Carter team proposed a Department of Development that would have included most of the same agency consolidation proposed earlier, but would have included all of the Farmers Home Administration programs but farm loan and farm operating loan programs.

It was the Nixon proposal of 1971 to reorganize rural development agencies and to place decisionmaking authority over Federal rural development funds in the hands of the States that prompted a Congress controlled by Democrats to pass the Rural Development Act of 1972.

As Osbourn describes it, the act "continued the tradition of making rural development a responsibility of the Department of Agriculture and added rural development as a basic mission of the Department."⁵

Has the Department of Agriculture proved to be the right place for rural development programs and the place to center leadership of the rural development process?

Joseph C. Doherty, who was associated with USDA rural development programs from 1954 to 1975, gives this answer:

Despite all that the Department has accomplished, it remains predominately a service and support agency for U.S. commercial agriculture. Only one Secretary in 30 years showed a personal and continuing interest in balancing farm programs with the variety of community improvement endeavors that make up the rural development process. In 1986 there is almost as little interest in the subject at policy levels in USDA as there was before Under Secretary True Morse got things started 30 years ago.⁶

Would rural development have fared better under a Secretary of Community Development, as Nixon proposed, or a Secretary of Development, as Carter's staff suggested? It probably would have because that Secretary's first responsibility would have been development and when that Secretary went to the Cabinet meetings at the White House, it would be to talk about development. While we have no certain record of these matters, it is unlikely that any recent Secretary of Agriculture was asked at Cabinet meetings

⁴ Quoted in "Departmental Reorganization, and General and Special Revenue Sharing: Some Issues That They Raise," Library of Congress, Congressional Research Service, June 3, 1971, p. 5.

⁵ Osbourn, "Rural Policy in the United States: A History," p. 51.

⁶ Doherty, J.C., "Rural Development and the Federal Bureaucracy: A 30-Year Search for Coherence," *American Land Forum Magazine*, Fall 1986, p. 51.

about anything but agriculture and the various commodity and support programs that make up our agriculture policy.

Would the rural development leadership/coordination role mandated by the Rural Development Act of 1972 have been carried out differently? Yes. The responsibility would probably have been taken much more seriously. It is likely the Secretary of a Department of Development or Community Affairs would have played a stronger, more visible role. A Department Secretary can accomplish a great deal more in leading and coordinating other Departments and agencies than can an Assistant Secretary or even an Under Secretary. This said, one must hastily add that even a Secretary is severely limited in this role.

The most important point made in the National Academy of Public Administration report which addressed the leadership/coordination role mandated in the 1972 act was this quote from Academy panel member James Sundquist's earlier book on federalism:

The facts of bureaucratic life are that no cabinet department has ever been able to act effectively, for long, as a central coordinator of other departments of equal rank that are its competitors for authority and funds. Nor does coordination spring readily from the mutual adjustment of Cabinet-level equals within the federal hierarchy.⁷

The Academy report went on to say that section 603 of the Rural Development Act of 1972 "does provide the Secretary of Agriculture with a legislative basis for requesting information that *if backed up by Presidential interest and White House participation* can lead to effective policy determination."⁸

Although there was no casual connection between the Academy's report and what subsequently transpired, there developed strong White House involvement in rural development during the Carter administration. The leadership/coordination role moved from USDA to the White House as Presidential Assistant Jack Watson came to cochair (with USDA Assistant Secretary Alex Mercure) the Assistant Secretaries Working Group on Rural Development. In the last 2 years of the Carter administration, meetings of the Working Group and a number of related inter-agency task forces held all their meetings at the White House.

A highlight of the period was President Carter's issuance of his Small Communities and Rural Development Policy on December 20, 1979.⁹

It was serendipitous that Jack Watson, presidential assistant for Inter-Governmental Affairs, a highly competent aide with the ear and confidence of the President (he later became chief of staff at the White House), took the initiative he did to move the leadership/coordination role out of the Department of Agriculture where it could not have succeeded to the White House where it did suc-

⁷ Sundquist, James L. and David W. Davis, *Making Federalism Work* (The Brookings Institution, Washington DC, 1969), p. 244. Cited in Academy Report.

⁸ Academy Report, pp. 6-7. Emphasis added.

⁹ See Daft, Lynn M., "The Rural Development Policy of the Carter Administration," in "Agriculture Communities: The Interrelationships of Agriculture, Business, Industry and Government in the Rural Economy." A symposium prepared by the Congressional Research Service, Library of Congress, for Committee on Agriculture, U.S. House of Representatives, committee print, October 1983.

ceed—at least for one bright shining moment. That conjunction of stars or circumstances are not likely to occur very soon again no matter what political party controls the White House.

We appear to have come full circle on the USDA leadership role. In April 1988, the administration released a new strategy document, *On the Move: A Report on Rural Economic Development in America*.¹⁰ The report says the White House-level Economic Policy Council chose the Department of Agriculture “to lead the Federal efforts to revitalize Rural America.” There is no reference to the 1972 congressional act that mandated precisely that. As Osbourn comments, “Presumably, any other choice would have required new statutory authority, since the Rural Development Act stipulated that USDA should be the lead agency in Federal rural development efforts.”¹¹

THE STATE LEVEL

If, as this paper contends, the White House is the only effective coordinator of coequal Cabinet Departments in Washington, who in the Federal Government can play that role among the many Federal agencies involved in rural development *outside* Washington? The answer is that no Federal official can do so successfully.

Limited progress on coordination of urban programs at a regional level was made by the Federal Regional Councils created during the Nixon administration. In the last year of Carter's term, Rural Development Task Forces, each staffed by an employee of USDA's Farmers Home Administration, was created in each of the 10 Federal Regional Councils. There was not a long enough history to assess their effectiveness. The Task Forces and eventually their parent Councils were abolished early in the Reagan administration.

At the State level, the only effective coordinator of Federal programs is the highest elected official, the Governor. During the last year of the Carter administration, as many Republican as Democratic Governors responded favorably to the President's suggestion to create State Rural Development Councils under Governors' chairmanships. If USDA is inadequate to the leadership/coordination role in Washington, it is even more inadequate at the State level. There Department agriculture programs and staff dominate. Only a Governor can convene the kinds of meetings where all Federal and State agencies involved in development have a seat at the table. At such a gathering, the traditional agriculture agencies may find themselves in a back row.

A POLICY IN SEARCH OF A CONSTITUENCY

This paper began with the contention that policy should precede organizational recommendations. Now Truism No. 2: Policymaking in our democratic society is essentially a consensus-building process. Rarely are significant new policies made without broad constituencies to support them. The ease with which the Carter rural

¹⁰ U.S. Department of Agriculture, Office of the Under Secretary for Small Community and Rural Development. *On the Move: A Report on Rural Economic Development in America*. Washington, DC, U.S. Government Printing Office 1988, p. 19.

¹¹ Osbourn, “Rural Policy in the United States: A History,” p. 80.

development policy was dismantled at the beginning of the Reagan administration would seem to indicate that no broad constituency for it existed. Rural development policy does indeed lack a broad constituency. The proof is in that thundering silence that greeted the 1985 abolishment of USDA's Office of Rural Development Policy and more importantly the curtailment or abolishment of Federal rural development programs. Contrast that silence with the loud outcry that would be heard if the environmental programs launched in the 1970's had been similarly curtailed. The difference is that environment has a large, vocal constituency. Rural development does not.

It should not be surprising. The membership of large environmental organizations in the U.S. (e.g., the Sierra Club, the National Audubon Society, and the National Wildlife Federation) add up to some 10 million citizens—middle class, educated, ready and willing to sign petitions and lobby their Congressmen.

But the definition of rural development I used in teaching courses on rural development gives a clue. It was coined by the World Bank: "Rural development is a strategy designed to improve the economic and social life of a specific group of people—the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural area."¹²

Unlike the environmentalists, the rural poor in the U.S. are not well educated; they are not vocal; they do not have supporting them anything comparable to the competent environmental lawyers in the Natural Resources Defense Council and elsewhere pressing their claims or bringing suit on their behalf. Like the poor everywhere in the world, they have no political clout. When it comes to Washington lobbying, they truly are still "the people left behind."

Therefore, the rural poor must be helped to become a vocal constituency. Their own voices must be heard in Washington. But in addition to their constituency *of* the rural poor, there must be formed also a broader constituency *for* the rural poor. And this must include large numbers in metro as well as nonmetro America.

Because in the U.S. our policymaking is a consensus-building process, there is no clear line between public education and public policy. On some major issues in the past, the U.S. Congress has played the education role. Through hearings and other devices, it has energized the citizenry and prodded the Executive. But in the past 8 years, the Congress has been silent. It is as though the Rural Development Acts it passed in 1972 and 1980 were not really laws that had to be adhered to by the executive branch. The Congress simply gave up its oversight responsibility—a responsibility it had carried out responsibly, conscientiously, and effectively through the Nixon, Ford, and Carter administrations.

¹² "Rural Development," Sector Policy Paper, World Bank, Washington, DC, February 1975, p. 3.

RECOMMENDATIONS TO A NEW ADMINISTRATION

Because the rural poor are worse off than they were a decade ago¹³ and despite the fact that their plight received little attention from either political party during the 1988 Presidential campaigns, a new President and his administration must give them the attention they deserve. It is therefore recommended:

(a) *That a Transition Team on Rural Development be created.* Because the team requires different experience and different expertise from that of an agricultural team, it should be separate and distinct from it although in frequent consultation with it.

(b) *That a Presidential Task Force or Commission on Rural Development be established* to review the effectiveness and capacity of the Nation's rural development delivery system through all levels of government. It should include representatives of rural communities, including local and State officials, nonprofit organizations, and the rural poor themselves.¹⁴

Such a Task Force or Commission must recognize that there is no articulate constituency for the rural poor. They do constitute a voter bloc. Therefore, a major responsibility for the Task Force or Commission is to address the public education, constituency building, and consensus building needed if new policies are to be drafted that can be carried through successfully. An aim is to create a constituency for the rural poor. It must certainly include the poor themselves and many others in rural America, but when formed its number may well include more citizens residing in urban places than in rural areas.

(c) *Consider the appointment of a Presidential Assistant for Rural Development.* Such a White House appointee would be able effectively to coordinate and to focus the efforts of the various departments and agencies. Experience has proven that only a White House Assistant with the ear and confidence of the President can effectively coordinate the programs of coequal Cabinet Departments.

In days of necessary budget stringencies when new programs to address the problems of the rural poor may be unlikely, it becomes crucially important that the various Federal programs directed to rural areas be more clearly targeted to the poor and to the most distressed communities. The effective coordination of these Federal programs becomes very important—especially if no additional Federal money is appropriated.

¹³ In 1985, one in five rural Americans were poor, according to official statistics. More recent studies have found that a disproportionate share of both persistent and temporary poor in the Nation live in nonmetropolitan areas. Prior to the 1970's, the metro unemployment rate was higher than that of nonmetro areas. During the 1970's, the nonmetro rate rose above the metro rate and has remained higher ever since.

¹⁴ Harold Wilson, executive director of the Housing Assistance Council, a public interest group that has long been a voice and advocate for the rural poor, suggests the following principles that should guide such a Task Force or Commission:

(a) Rural areas should benefit equitably from the Nation's economic resources;

(b) The character of rural America is a valuable asset to the Nation. To preserve it requires that the dispersed people of rural areas should be supported and those people and communities in need should have resources targeted to them;

(c) Rural development policy should recognize the interrelated nature of rural problems and provide for comprehensive strategies that encourage and support the generation of local ideas and resources; and

(d) A comprehensive policy must be based on a common understanding of the need for a cooperative relationship with the natural environment rather than one of exploitation.

(d) *Be sure the State Governors are represented on the Task Force or Commission* and enlist them to set up mechanisms to coordinate Federal and State programs in their respective States.

(e) *Choose an Under Secretary for Small Community and Rural Development* with knowledge and experience in dealing not only with the 5 million people on farms, but also with the other 52 million citizens living in nonmetro America.

Because the rural poor are in the main not living on farms, the Under Secretary must be familiar with their problems as well as with the problems of farmers. It is they and the communities in which they reside that lack jobs, decent housing, good schools, clean drinking water and safe sanitation, adequate health care, sufficient day care centers and nursing homes, and good transportation. The most important qualification for the Under Secretary is that he or she is ready and willing to be a persuasive advocate for the rural poor—within the executive branch, with the Congress, and with the Nation.¹⁵

BIOGRAPHICAL NOTE

Dr. Nagle initiated and directed the multicounty economic development district program for the U.S. Economic Development Administration in the 1960's. He started the Institute of Urban Studies at Cleveland State University, served on the Domestic Programs Staff of the President's Advisory Council on Executive Organization (the Ash Council), was director of Development Planning and Assistant Secretary for Economic Development for the State of Maryland. In the U.S. Department of Agriculture, he served as Associate Administrator for Rural Development Policy Management in the Farmers Home Administration and Administrator of the Rural Development Service. He has taught graduate courses in rural development for American University. He is now senior associate for policy affairs at the World Resources Institute, a policy research center working on domestic and international environment and natural resource issues. He holds a Ph.D. in political science from Georgetown University.

¹⁵ In writing the final draft of the Recommendations for this paper, the author is the grateful beneficiary of advice and assistance from Harold Wilson and Moises Loza of the Housing Assistance Council; Robert Repoza, legislative director of the National Housing Coalition; and Gordon Cavanaugh, formerly administrator of the Farmers Home Administration.

VI. CLOSING REMARKS

By Kenneth L. Deavers ¹

First let me thank Sandra Osbourn and David Freshwater for the invitation to participate today and yesterday. I must say this was one of the most stimulating discussions of rural issues and rural policy that I have been fortunate to attend in the past 3 or 4 years.

I think we heard an excellent set of papers, with some extraordinary insights. They cover so much territory that I have decided I won't try to summarize what happened. Instead, I am going to try to provide a context, take some cheap shots at things which I didn't agree with, and leave you with some of my own biases, which you are free to take cheap shots at after you leave.

So, let me try to provide at least some kind of wrap-up for what we have been discussing.

Glen Nelson took me to task some months ago for a statement in the policy chapter of ERS's report, "Rural Economic Development in the 1980's." In that chapter I said that the national and regional economies were best served by a rural policy which assisted structural adjustment and change in the economy rather than impeded it, encouraging capital to move among industries, occupations, and places as required by market forces. He argued—I think correctly—that I was assuming some things about resource endowments, about property rights, and about rules of the game that shouldn't be assumed, but thought about critically.

As I thought about yesterday's and this morning's discussions, I am struck by how much of our discussion was not about the economics of rural policy—that is, about narrow concepts of market efficiency or the cost effectiveness of various policy options. Rather, I think we have been discussing what I will call the political economy of rural policy.

As a result, sometimes explicitly and more often implicitly, our discussions have had important values content. I don't think we should apologize for that because I believe many of the issues the Nation faces in choosing approaches to rural policies for the 1990's involve values decisions. To argue the contrary seems to me to trivialize the significance and difficulty of the choices we face.

What I would like to do for the next few minutes is to discuss a series of questions about the political economy of rural policy. These are questions which I think are hierarchical in the sense that you can't answer the ones at the end of the list very sensibly unless you've answered the ones at the beginning first.

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Unlike Fred Schmidt, I guess I don't think ambiguity is necessarily a sign of maturity, but rather of confusion. I don't believe these questions necessarily have correct answers in the sense that some mathematical problems do. But I do believe that reaching some political consensus on answers is important if we are going to have coherent and sensible rural policy, which is what I think we have been trying to work toward.

I also believe, with Jim Bonnen, that information and analysis play some role, although not necessarily a decisive one, in reaching this consensus.

So, let me give you my questions and then make some observations about each of them:

The first question I would ask is what is rural?

The second question is, is there a rural problem, and if so, why do we care?

Third, what might we realistically expect to achieve?

Fourth, what kinds of programs might make a difference?

Fifth, what about the role of different levels of government?

And finally, what about the role of the private sector?

What is Rural? My sense is that none of the dichotomous ways of defining rural—that is, urban versus rural, metro versus nonmetro, adjacent versus nonadjacent counties—are entirely satisfactory, that it is more useful to think of a continuum of rural along a number of dimensions, not all of which we currently capture in our public data systems.

It turns out, as I think about it, that the ERS typology of rural places is useful not because of the economic base delineation alone, but because that delineation, when combined with the noneconomic base categories, captures a multidimensional view of rural areas. It tries to capture ruralness along several dimensions. It also does something else. It captures an enormous amount of information about rural places in a handful of intuitively sensible classes that we can explain to people other than other social scientists. In my judgment that's a requirement if the purpose of our research is to inform public policy rather than each other.

Some aspects of what we mean by rural—strong family values, a commitment to the work ethic, social and cultural homogeneity, for example—are not at all well captured by the ERS typology. They may, in fact, be rhetoric or myth, but without some effort at measurement, we won't ever know.

ERS is about to publish some work on social indicators for rural areas which I hope, will enlighten us on some of these dimensions. But I believe that much remains to be done in refining our concepts of rural, and in devising ways to understand what the rural condition is, based on new uses of currently available data. Therefore, I applaud some of the ideas that Glen Nelson introduced yesterday about trying to get synthetic measurements from the existing data where we don't have funds to collect new data.

Finally, it seems to me that we do need to decide what new measures of rural condition our data systems should allow us to monitor. Jim Bonnen yesterday afternoon during a break reminded me that something he had meant to say in the morning was that there isn't a one-way relationship between data systems which inform and then lead to public policy, it's a two-way relationship.

That is, what you think is important in public policy—the public policy goals—drive some of the things that you ought to measure in the data systems.

I think, we have to be careful not to become captives of the existing data systems and let them constrain what we think are legitimate targets of public policy and useful public goals. If we do that, we will be prisoners of the past. In fact much of our discussion of public policy for rural areas now, I think, is trapped in that dilemma.

I cannot leave the issue of rural and what we mean by it without saying that I think we have made some progress in increasing the public understanding that rural policy is about territory and places, not about one sector, agriculture. I would have been tempted before yesterday afternoon's lunch to say that we have made considerable progress. But I need to tell you a story that I heard at lunch, which I found disappointing.

It turns out the day before this symposium was held, there was a day of hearings, and one of the people who came to those hearings, not as a witness but as a member of the legislature, came principally to say that when people think about New York, they think about Manhattan, but farming is New York State's most important industry; and therefore commodity policy is crucial for rural New York.

I don't really mean to pick an argument with this Senator, because in one sense he is absolutely right. (I come to the conclusion occasionally that we would be better off if Leontief had never invented input-output analysis). But, let me ask you three questions about what this Senator asserted. If there were no farmers in New York State, would there be no restaurants, no supermarkets, no jobs transporting foodstuffs, no manufacturers of food-related products? Second, do existing commodity programs really encourage the creation of new jobs in farming? Or, third, to what extent does the job growth in rapidly growing parts of the food and fiber system depend on the continuation of existing commodity programs, and where are these jobs located, in any case?

IS THERE A RURAL PROBLEM?

I think the old admonition that where there is smoke there is fire is apt. Given all of the rhetoric that we hear, given all of the attention to rural problems, there just has to be one there somewhere.

In fact, however, I don't think there is much consensus about what it is. We had a session yesterday on rural poverty. I think there is very little political consensus—close to zero, in fact—that the principal target of rural policy ought to be the rural poor. Despite the fact that that was the intellectual base for a lot of the programs that were put in place in the 1960's, the remnants of which still exist now.

I am struck by the fact that the legislative pressure to enact new legislation on rural development was strongest in the last few years when the farm crisis was the most severe. As the farm crisis has waned—not coincidentally, as the Federal Government has

pumped enormous amounts of money into the sector—the impetus for legislation to deal with rural development has subsided.

I think that the continuing pressure to do something about rural development, to the extent that there is any, will come over the next few years as a result of the political pain felt from rural outmigration. If you look back, we thought of the 1950's and 1960's as a period of very rapid outmovement for rural people. In fact, the average annual net outmigration from rural areas during those two decades was about 250,000 a year. According to the CPS, the current annual rate of outmigration from rural areas is about 500,000 a year. And I think that rates that high will generate a substantial felt need for policy. I am not sure that they will, however, generate a need for what I would call sensible or coherent policy.

We hear about lots of other kinds of rural problems. We hear about the rural housing crisis. We hear about rural hospital closings. We hear about the problems of rural transportation deregulation. We hear about banking deregulation. My sense is that unless we can achieve some consensus around a reasonable number of targets, that we will continue to have the kind of piecemeal policies that we've had so far. That is, we will get a little bit here, a little bit there, nothing that satisfies anybody very well, but efforts which partially satisfy the small constituency for each program.

One of the things that I found most interesting today in Bill Nagle's "letter to the incoming administration," was a very different focus from the kind of constituency building that I have heard discussed in the last 7 or 8 years. A lot of rural advocates have asked, how do we build a coalition of rural advocates? And no matter how you slice the rural numbers, it seems to me it's not going to be enough for the commitment of Federal money in significant amounts to do something (if you think it's important that the Federal Government spend money to do something). Bill's focus was on the building of constituencies *for* rural problems. And that involves a constituency that isn't only of rural people. I think that there is some possibility of doing that.

I think we also need to face the fact that there are a lot of problems where there are differences across territory but where the residential variable really isn't a very important causal factor.

Dave Brown and I closed out the division's work on rural housing 4 years ago, largely because the research that we were doing left both of us unconvinced that there was a uniquely rural housing problem for poor people. It was very different 30 years ago, when the inadequate housing stock in rural America was proportionally 10 times as large as in urban areas. Enormous progress has been made on rural housing, so much so, in fact, that in my judgment the issue of housing affordability and inadequate housing has to do with poverty, rural or urban.

At a meeting in Aspen, Colorado, a month and a half ago, on another subject Don Dillman argued that before we can understand why we care about rural policy, we need to understand more about current residential preference. We have largely stopped doing research on residential preference in this country. And there is an awful lot of the rhetoric surrounding the advocacy of rural policy that suggests people want to stay in rural areas.

It's not at all clear to me that all the people leave because they desperately have to leave. Dick Long, in a paper that we recently wrote for the National Public Policy Education Conference, sponsored by the Farm Foundation, wrote a paragraph that I probably wouldn't have had the insight to write, but which I think is important. He said that the long sweep of history that has moved large numbers of people from small, rural, agrarian places to big cities is one not just of negative outmovement influences, it's primarily one of positive attractions.

To say to people, we're going to keep you in rural areas where we know that the occupational structure doesn't provide as much upward mobility, where the industrial structure makes you more vulnerable to dislocation, where there is a whole set of problems in terms of the delivery of services to disadvantaged, displaced people, seems to me inappropriate public policy. Instead, we ought to encourage opportunities for people to realize their wishes. To do that, we need to understand more about residential preference in this country.

This is a plea, if you will, for reestablishing research, which we were doing a lot of in the 1950's and 1960's. Then all of a sudden the 1970's came along and people were moving to rural areas. We assumed that's where they wanted to be and therefore we didn't have to do residential preference research anymore.

Why Do We Care? Are our goals for rural places founded mainly on questions of economic opportunity? If they are, then I will stick with the statement that I made in the ERS report, that by and large rural policy will be best in meeting people's needs for upward mobility opportunities, for better income opportunities, by encouraging structural adjustment, occupational change, and changes of residence.

I think, however, there are at the heart of the rural policy debate some other values. I think some of us are afraid of what we lose as a nation if we lose rural areas; if we lose a component of our rural identity. The Europeans do a much better job of articulating that issue than we do, but I think part of the public discussion, part of the public debate that we need to have is about what it is in rural places that we cherish and want to nurture and keep alive. Dealing with that issue it seems to me, is a precondition to choosing sensible rural policy.

What Might We Realistically Expect To Achieve? I would say three things are important to think about here. At the Aspen meeting I mentioned a moment ago, Richard Silkman, the economic development director for the State of Maine made an interesting comment about the historic role of resources, site-specific resources, and the rents associated with those in providing income opportunities for rural people. As resources that are site-specific have become less and less a part of the national production process, the economic rationale both for community and for industry in rural places has been eroding: agriculture, mining, forestry, to some extent the site-specific advantages of cheap land and cheap labor, which drove a lot of the manufacturing decentralization that we saw in the 1960's and 1970's, all have waned in importance.

What are the new site-specific rents that rural areas stand a chance of earning? We already know at least one of them, and that

is amenities; that is, places that are scenic, that have nice climates, that are nice places to live will do well. If you can live anyplace, why would you want to live in a place that is less desirable than some other places? And what kind of rural areas grew very rapidly in the 1970's, and have continued to grow? Since 1983, 85 percent of all the rural population growth in this country has taken place in 500 nonmetropolitan counties. These are what ERS calls recreation-retirement counties. These are counties that are mountain counties, they are lake shore counties, they are ocean front counties. There are not very many of any of those things in Nebraska or western Kansas or the Dakotas. And so, clearly, the site-specific kinds of capital that are going to earn rural rent are going to leave important parts of this country unserved.

The other growing rural places are those adjacent to metro areas. But major rural sections of the country are out of the economic reach of metro opportunity as well.

One of the questions that we have to deal with, I think, is how public policy is going to come to grips with the fact that the broad sweep of economic growth is going to bypass very large portions of the Great Plains and upper Midwest.

I think Tom Stinson made an important point yesterday, when he said that the triage analogy that Drabenstott and Mark Henry use in the work that they have done, is really inappropriate because towns don't very often die. Instead, they stagnate. People live there, people have to have services. The question is do we care about the kind of services they get? Do we care enough to pay? Not to tell them to pay, but to make a national commitment to transfer some resources there to assure that those people have some minimal acceptable level of services.

Willingness to help in this way is something I don't see much evidence of in this country. It is what in a European context you would call "solidarity," what in Canada is a commitment to the truly massive regional transfers of resources we heard about today. In the European context there is another kind of solidarity besides that which you see in various countries. You can see it at the EC level in the form of a structural adjustment fund and a disadvantaged-areas fund, which are the most rapidly growing parts of the EC budget as they move to the 1992 unification of Europe. There is an understanding that European unification won't work if many more people are disadvantaged in the process, and they are going to have to deal with the fact that that will be an outcome without major transfers to disadvantaged regions.

The second thing the Europeans do is they have a much longer and deeper commitment than we seem to have to assuring people adequate levels of income wherever they live in the nation. I think that the problem of rural poverty which we talked about yesterday is a mirror image, if you will, of the problem of central-city poverty. Neither of those problems will be dealt with by development initiatives alone. In fact, I would say more strongly that neither of those problems will be dealt with by development initiatives primarily. They are issues essentially of income maintenance and transfers at adequate levels to assure decent standards of living. And therefore, national welfare reform, which we have just been through one round of and which hasn't solved some of those very

fundamental issues, is more important than what we do on development policy for both the center-city poor and many of the rural poor. This is certainly true for the persistent rural poor who reside in pockets of poverty in Appalachia and other places in the South as well as Indians on reservations.

I am struck by the arguments that William Greider made in the series of articles that he wrote in *The New Yorker*, in which he talks about the formulation of macropolicy in this decade, about the interests that prevail in the formulation of macropolicy, and about the consequences of the macropolicies that we have chosen in the 1980's. I can't summarize the full depth and richness of the arguments he makes, but Greider suggests that the argument about whether or not we have had the appropriate macropolicy this decade is not unlike the arguments that took place much earlier in this country over the free coinage of silver: rural areas are, to some extent, the periphery and macropolicies which choose relatively lower levels of inflation and, therefore, relatively lower levels of real growth, disproportionately disadvantage the periphery.

I agree with Tom Hady's general conclusion that macropolicy is not a sufficient targeted and honed tool to reach pockets of the persistent poor, or for that matter, in my judgment, to reach many of the newly poor. But if we had made a different tradeoff this decade between rates of growth and rates of inflation, I would guess that we would have a lot fewer newly poor. In that case, we might not be arguing about whether the target of national policy should be the newly poor who we worry might become the new persistent poor, or people who have been poor forever in places that have been poor forever.

What Kinds of Programs Might Make a Difference? There are some things that were said here that I think are really important. The programs need to be long term, not short term. You can't have development, which is a process that goes on for many years, if Federal or the State responses are on this year, off next year, on this year, off next year. Development is a process which is ongoing, which takes a commitment to investments. It takes a strategy. It takes some strategic interventions. You cannot do it in any other way.

I think some of the things that Tom Stinson said about programs that are self-funding after some point in time are useful. You may have to put some money up to start, but then you have some sort of a revolving fund process so that you aren't subject to the annual appropriations process to keep those programs in place. I think that that is a useful and interesting strategy.

Programs also need to be oriented to integrating rural places into the national and international economy. How is that done? I think transportation is important, although in a society where 75 percent of the new jobs created since 1950 are in services, not in the production of goods, I worry a lot more about communications. What is likely to be critical is the movement of information from place to place and the ability to participate in national and international markets, which depends on access to information.

Education is also critical. Jim Bonnen pointed out—and I think we pointed this out in the Senate study—that education has two values. It makes places more attractive to enterprises that we want

to create employment opportunity. But whether or not the place ever attracts any more employment, if people have to leave the place to get jobs, it also makes them better off wherever they end up. And it is very important, as a result, I think, to narrow the educational differences between rural and urban areas.

I would argue even more strongly that that isn't all that is important. We have to upgrade the educational standards for the Nation as a whole. Should we have national standards? It's a controversial issue.

We are virtually the only Western nation that doesn't have any national educational standards. Is that where we want to be? Does that leave us in the position of vulnerability competitively with the rest of the world, given the direction in which the developed economies are moving. That's a question that needs to be discussed.

What About the Role of the Government? What about the Feds? I would say that there are four roles, at least. One is the provision of basic information; that is, support for the collection of basic data by which we monitor and observe, and which provides the basis for analysis of rural policy opportunities and rural policy needs. You cannot have national policy based on idiosyncratic State-based, local, or anecdotal data systems. We need concepts and methods that are national in scope. We need to reach for some of the things that were recommended by the National Academy of Sciences back in 1980.

I was amused by Jim Bonnen's comment that he was amazed at how many of the recommendations that the Academy made that still stood up. Why should we be amazed? We haven't done anything. If there were major gaps that haven't been responded to, why should you be surprised that these gaps still exist 7 or 8 years later? I would have been amazed if they didn't.

Second, it seems to me that the Federal Government has some responsibility across territory—there is some recognition of this—to deal with the externalities of the spatial distribution of economic activity and growth. One of the principal areas, it seems to me, is in education. I think it is hard to argue that the principal responsibility for spending on educational upgrading lies with States and localities when they may not get the gains from making those investments. People have told me that you didn't have to worry about that because the States were really committed to doing it and so the Feds didn't have to be involved.

I felt comfortable with that until about 3 weeks ago when the front page of the Wall Street Journal had an article which discussed the long commitment to education in the State of Iowa. The State of Iowa spends a larger fraction of its State budget than almost any other State on education, and has for years. In that article the Commissioner of Agriculture for Iowa said—I am paraphrasing him now—"Education had its chance, and it failed. It's time for agriculture." He recommended that the State divert money that was currently going into the support of education of Iowans to commodity agriculture instead.

Third, I think—and there was some discussion of this yesterday—that the Federal Government has some responsibility to reduce the transactions and information costs that are associated

with small-scale enterprises, with distance from markets, with things that are of the essence of being rural.

And fourth, I think it's possible for the Federal Government to encourage interlocal cooperation, the idea for rural communities as dispersed neighborhoods. I don't think it's possible to achieve this without some Federal leadership. And I think it's enormously important if we are going to have meaningful rural development, particularly in places where the likely future is one of relative stability or stagnation, not of rapid growth.

A lot has been said about State and local governments' roles. I don't have anything to add to that. And I come out where somebody did earlier today—and I don't remember who it was this morning—who said the private sector had a difficult time figuring out what it ought to do about rural development. I think that's right, and I don't think we ought to expect the private sector to solve the problem. That's not their responsibility. If we care about rural development, it's a public responsibility, and we need to decide whether we do.

Thank you.



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